

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR 12(g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2023

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report _____

Commission File Number: 000-29442



FORMULA SYSTEMS (1985) LTD.

(Exact Name of Registrant as Specified in Its Charter
and translation of Registrant's name into English)

Israel

(Jurisdiction of Incorporation or Organization)

Yahadut Canada 1 Street, Or Yehuda 6037501, Israel

(Address of Principal Executive Offices)

Asaf Berenstin; Yahadut Canada 1 Street, Or Yehuda 6037501, Israel

Tel: 972 3 5389389, Fax: 972 3 5389300

(Name, Telephone, E-mail and/or Facsimile Number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange On Which Registered
American Depositary Shares, each representing one Ordinary Share, NIS 1 par value	FORTY	Nasdaq Global Select Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

As of December 31, 2023, the registrant had 15,332,667 outstanding ordinary shares, NIS 1 par value, of which 141,398 were represented by American Depositary Shares.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP <input type="checkbox"/>	International Financial Reporting Standards as issued by the International Accounting Standards Board <input checked="" type="checkbox"/>	Other <input type="checkbox"/>
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If “Other” has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in filing reflect the correction of an error to previously issued financial statements.

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive – based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b).

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 20-F contains various “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and the safe harbor provisions of the U.S Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. Statements which use the terms “anticipate,” “believe,” “expect,” “plan,” “intend,” “estimate,” “may,” “will” and similar expressions are intended to identify forward looking statements. Such statements reflect our current views with respect to future events and are subject to certain risks and uncertainties. There are important factors that could cause our actual results, levels of activity, performance or achievements to differ materially from the results, levels of activity, performance or achievements expressed or implied by the forward-looking statements, including, but not limited to:

- the degree of our success in our plans to leverage our global footprint to grow our sales;
- the degree of our success in integrating the companies that we have acquired through the implementation of our M&A growth strategy;
- the degree of our success in developing and deploying new technologies for software solutions that address the updated needs of our customers and serve as the basis for our revenues;
- the lengthy development cycles for a portion of our solutions, which may frustrate our ability to realize revenues and/or profits from our potential new solutions;
- our lengthy and complex sales cycles, which do not always result in the realization of revenues;
- the degree of our success in retaining our existing customers and competing effectively for greater market share;
- difficulties in successfully planning and managing changes in the size of our operations;
- the frequency of long-term, large, complex projects that we perform from time to time that involve complex estimates of project costs and profit margins, which sometimes change mid-stream;
- the challenges and potential liability that heightened privacy laws and regulations pose to our business;
- occasional disputes with clients, which may adversely impact our results of operations and our reputation;
- various intellectual property issues related to our business;
- potential unanticipated product vulnerabilities or cybersecurity breaches of our or our customers’ systems, particularly in the current hybrid office/work-from-home environment;
- risks related to industries, such as the insurance, healthcare, defense and the telecom, in which certain of our clients operate;
- risks posed by our global sales and operations, such as changes in regulatory requirements, supply chain disruptions, geopolitical instability stemming from Russia’s invasion of Ukraine, wide-spread viruses and epidemics or fluctuations in currency exchange rates;
- the duration of macroeconomic headwinds caused by inflation, relatively high interest rates and currency exchange rate movements, and their impact on our revenues, profitability and cash flows; and
- risks related to our and our subsidiaries’ principal location in Israel.

While we believe our forward-looking statements are based on reasonable assumptions, should one or more of the underlying assumptions prove incorrect, or these risks or uncertainties materialize, our actual results may differ materially from those expressed or implied by the forward-looking statements. Please read the risks discussed in Item 3 – “Key Information” under the caption “Risk Factors” and cautionary statements appearing elsewhere in this annual report in order to review conditions that we believe could cause actual results to differ materially from those contemplated by the forward-looking statements.

The forward-looking statements made in this annual report relate only to events as of the date on which the statements are made. You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this annual report, to conform these statements to actual results or to changes in our expectations.

Risk Factors Summary

The following is a summary of the principal risks that could materially adversely affect our business, results of operations, and financial condition, all of which are more fully described below. This summary should be read in conjunction with the other information discussed in this Item 3.D, and should not be relied upon as an exhaustive summary of the material risks facing our business. Please carefully consider all of the information discussed in this Item 3.D. “Risk Factors” and elsewhere in this annual report for a more thorough description of these and other risks.

Summary of Risks Related to Our Business, Our Industry and Our Financial Condition

- The implementation of our M&A growth strategy involves significant risks, and the failure to integrate acquired companies successfully may adversely affect our future results.
- If we do not successfully develop and deploy new technologies to address the updated needs of our customers, our business and results of operations could suffer.
- Our development cycles are often lengthy, and we may incur significant expenses before we generate revenues, if any, from our solutions.
- Macro-economic headwinds may adversely impact our revenues, profitability and cash flows.
- Our inability to respond to the evolving technological environment could materially affect our results of operations.
- Highly skilled research and development, product implementation, customer support and other personnel are difficult to retain, and an increased investment by us in such personnel may reduce our profitability.
- Failure to manage our growth—both organic and non-organic—could harm our business.
- The market for software solutions and related services is highly competitive and dynamic.

- If we fail to successfully plan and manage changes in the size of our operations in response to changes in demand for our products and services, our business will suffer.
- If our relationships with our existing customers, including largest customers, are impaired, our revenue could be negatively affected.
- We are in part dependent on a limited number of core product families.
- Our business sometimes involves long-term, large, complex implementation projects across the globe, which are accompanied by various risks.
- We may be liable to our clients for damages caused by a violation of intellectual property rights or similar matters, and our insurance policies may not be sufficient to cover these damages.
- Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.
- Security vulnerabilities in our software solutions could lead to reduced revenue or to liability claims.
- Errors or defects in our software solutions could inevitably arise.
- Incorrect or improper use of our products could result in customer dissatisfaction.
- Catastrophes may adversely impact the insurance industry, preventing us from expanding or maintaining our existing customer base.
- Intangible assets and goodwill recorded on our consolidated statements of financial position may lead to significant impairment charges in the future.
- There may be consolidation in the insurance or other markets in which we operate, which could reduce the use of our products and services.
- Our and our investees' credit facility agreements and debentures are subject to a number of restrictive covenants.

Summary of Risks Related to Intellectual Property

- Third parties may assert that we have infringed their intellectual property rights.
- Our intellectual property rights and our source code may be insufficiently protected.
- The loss of third-party technology and intellectual property could limit the functionality of our products.
- We could be required to provide the source code of our products to our customers.
- Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require our release of source code.

Risks Relating to Our International Operations

- Fluctuations in foreign currency exchange rates have been adversely affecting, and could continue to adversely affect, our business.
- International operations in the insurance industry, requires adaptation to regulations in specific territories, which can be costly.
- Our business may be materially affected by changes to fiscal and tax policies.

Summary of Risks Related to an Investment in Our Traded Securities and to Our Consolidated Holdings

- There is limited trading volume for our ADSs and ordinary shares, which reduces liquidity and increases volatility.
- We have a history of quarterly fluctuations in results of operations, which contributes to volatility in the market for our securities.
- Our securities are traded on more than one market, which may result in price variations.
- Our largest shareholder, Asseco Poland S.A., can significantly influence the outcome of matters that require shareholder approval.
- If we are unable to maintain effective internal control over financial reporting in accordance with Sections 302 and 404(a) of the Sarbanes-Oxley Act of 2002, the reliability of our financial statements may be questioned.

Risks Related to Operations in Israel and Other Specific Geographic Locations

- The ongoing war and hostilities between Israel and terrorist groups— Hamas in Gaza, and Hezbollah in Lebanon— may limit our ability to sell our products.
- A reduction of government spending in Israel on IT services, from which some of our revenues are derived, may reduce our revenues and profitability.
- Tax benefits available to certain of our Israeli subsidiaries and our Israeli affiliate require us to continue to meet various conditions and may be terminated or reduced in the future.
- Israeli government grants to Sapiens, one of our subsidiaries, restrict its activities in certain manners and require it to satisfy specified conditions.
- As we continue to expand our business in emerging markets, such as India, we face increasing challenges.
- As a foreign private issuer whose ADSs are listed on the Nasdaq Global Select Market, we may follow certain home country corporate governance practices instead of certain Nasdaq requirements.

CERTAIN TERMS AND CONVENTIONS

Unless the context requires otherwise, all references in this annual report to:

- “*Formula*” refer to Formula Systems (1985) Ltd. alone;
- “*we*,” “*our*,” “*ours*,” “*our company*,” “*our Group*” and “*us*” refer to Formula, together with its subsidiaries and its affiliate company, unless otherwise indicated.

Our operations are currently conducted through our subsidiaries—

- “*Matrix*”, which refers to Matrix IT Ltd. and its subsidiaries;
- “*Sapiens*”, which refers to Sapiens International Corporation N.V. and its subsidiaries;
- “*Magic Software*”, which refers to Magic Software Enterprises Ltd. and its subsidiaries;
- “*Michpal*”, which refers to Michpal Micro Computers (1983) Ltd. and its subsidiaries;
- “*InSync*”, which refers to InSync Staffing Solutions, Inc. and its subsidiaries;
- “*Ofek Aerial Photography*”, which refers to Ofek Aerial Photography Ltd.;
- “*Zap Group*”, which refers to Zap Group Ltd. and its subsidiaries; and
- “*Shamrad*”, which refers to Shamrad Electronics (1977) Ltd. (which we acquired in October 2022); and

and our affiliated company—

- “*TSG*,” which refers to TSG Advanced IT Systems, Ltd., in which we hold a 50% share interest.
- “*Companies Law*” refer to the Israeli Companies Law, 5759-1999.

- “dollars” or “\$” are to U.S. dollars;
- “NIS” are to New Israeli Shekels;
- “ADSs” refer to our American Depositary Shares, each of which represents one ordinary share, par value NIS 1 per share, of our company;
- “ordinary shares” refer to our ordinary share, par value NIS 1 per share, and include ordinary shares that are represented by ADSs;
- “Nasdaq” refer to the Nasdaq Stock Market, on which the ADSs are listed for trading;
- “TASE” refer to the Tel Aviv Stock Exchange, on which the ordinary shares are listed for trading;
- “SEC” refer to the U.S. Securities and Exchange Commission;
- “Israeli CPI” refer to the Israeli consumer price index;
- “IFRS” refer to International Financial Reporting Standards, as issued by the IASB; and
- “IASB” refer to the International Accounting Standards Board.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with IFRS.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we have filed any of these documents as an exhibit to this annual report or to any previous filing with the SEC, you may read the document itself for a complete recitation of its terms.

All trademarks appearing in this annual report are the property of their respective holders.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. [Reserved]

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investing in our ordinary shares, including ordinary shares represented by ADSs, involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares or ADSs. Our business prospects, operating results and financial condition could be seriously harmed due to any of the following risks. Additional risks and uncertainties that we are not aware of or that we currently believe are immaterial may also adversely affect our business prospects, financial condition, and results of operations. The trading prices of our ordinary shares and ADSs could decline as a result of the realization of any of these risks, in which case you may lose part or all of your investment.

Risks Related to Our Business, Our Industry and Our Financial Condition

The implementation of our M&A growth strategy, which requires the integration of our multiple acquired companies and their respective businesses, operations and employees with our own, and their respective businesses, operations and employees with our own, involves significant risks, and the failure to integrate successfully may adversely affect our future results.

In the past decade we have completed a significant number of important acquisitions. most recently in the fourth quarter of 2023, our subsidiary Sapiens acquired NCDC S.A., a Poland-based company with a knowledge of Sapiens' products in the Nordics, for a purchase price of \$11.7 million. Sapiens also signed an agreement for the purchase of the remaining outstanding shares of Sapiens Software Solutions (Decision) Ltd. from its minority shareholders, which was completed on March 27, 2024. During 2023, Sapiens also increased its holdings in Tiful Gemel (an Israeli provider of provident fund operation, pension clearinghouse services and other additional software services) and Neuralmatic to 100%, transforming those companies into wholly-owned subsidiaries of Sapiens; On June 8, 2023, our subsidiary Magic Software acquired a 60% share interest in K.M.T. (M.H.) Technologies Communication Computer Ltd., an Israeli provider of secured private, public and hybrid cloud computing managed services along with full spectrum of IT communication and professional services - From IT support and helpdesk to IT infrastructure and telephony services. Magic Software also increased its holdings in Mobisoft Ltd. (an Israeli provider of proprietary comprehensive core system for sales and distribution field activities for consumer goods manufacturers and wholesalers) from 73.7% to 98.5% and in Appush Ltd. (formerly known as Vidstart Ltd.) a provider of a video advertising platform that offers personalized automated methods and real-time smart optimization in the competitive digital ecosystem) to 100%, transforming it into a wholly-owned subsidiary. On January 1, 2023 Matrix acquired 70% of the share capital of Zebra AGR Technologies Ltd., which specializes in the distribution of software solutions in the fields of information security and data communication. On June 22, 2023, our subsidiary Michpal acquired a 75% share interest in Emalogic Software Ltd., an Israeli provider of software development services, specializes in the development of mission-critical systems, starting from the characterization phase and through the maintenance phase. Emalogic holds extensive knowledge in the development field of user experience (UX) and user interface (UI) allowing it to provide a complete end-to-end software solution. All such acquisitions are part of our integrated M&A growth strategy, which is centered on three key factors: growing our customer base, expanding our geographic footprint and adding complementary solutions and services to our offerings— all while we seek to ensure our continued high quality of services and product delivery. Any failure to successfully integrate the business, operations and employees of our acquired companies, or to otherwise realize the anticipated benefits of these acquisitions, could harm our results of operations. Our ability to realize these benefits will depend on the timely integration and consolidation of organizations, operations, facilities, procedures, policies and technologies, and the harmonization of differences in the business cultures between these companies and their personnel. Integration of these businesses will be complex and time-consuming, will involve additional expense and could disrupt our business and divert management's attention from ongoing business concerns. The challenges involved in integrating these acquired entities and other former acquisitions include:

- Preserving customer and other important relationships
- Integrating complex, core products and services that we acquire with our existing products and services
- Integrating financial forecasting and controls, procedures and reporting cycles
- Combining and integrating information technology, or IT, systems
- Integrating employees and related HR systems and benefits, maintaining employee morale and retaining key employees
- Potential confusion that we may have in our dealings with customers and prospective customers as to the products we are offering to them and potential overlap among those products
- Investment of significant management time and attention towards the integration process

The benefits we expect to realize from these acquisitions are, necessarily, based on projections and assumptions about the combined businesses of our Group, and assume, among other things, the successful integration of these acquired entities into our business and operations. Our projections and assumptions concerning our acquisitions may be inaccurate, however, and we may not successfully integrate the acquired companies and our operations in a timely manner, or at all. We may also be exposed to unexpected contingencies or liabilities of the acquired companies. If we do not realize the anticipated benefits of these transactions, our growth strategy and future profitability could be adversely affected.

If we do not successfully develop and deploy new technologies to address the updated needs of our customers, our business and results of operations could suffer.

Our success has been based in part on our ability to design software solutions that enable our customers to facilitate, improve and automate traditional processes to make them easier for end-customers, by utilizing advanced technologies, such as digital engagement, low-code/no-code, API layer, advanced analytics and cloud computing. We spend substantial amounts of time and money researching and developing new technologies and enhanced versions of existing features to meet our customers' and potential customers' rapidly evolving needs. There is no assurance that our enhancements to our solutions or our new solutions' features, capabilities, or offerings, will be compelling to our customers or gain market acceptance. If our research and development investments do not accurately anticipate customer demand or if we fail to develop our solutions in a manner that satisfies customer preferences in a timely and cost-effective manner, we may fail to retain our existing customers or increase demand for our solutions.

Introduction of new products and services by competitors or the development of entirely new technologies to replace existing offerings could make our solutions obsolete or adversely affect our business, financial condition, and results of operations. We may experience difficulties with software development, design, or marketing that delay or prevent our development, introduction, or implementation of new solutions, features, or capabilities. We have in the past experienced delays in our internally planned release dates of new features and capabilities, and there can be no assurance that new solutions, features, or capabilities will be released according to schedule. Any delays could result in adverse publicity, loss of revenue or market acceptance, or claims by customers brought against us, any of which could harm our business. Moreover, the design and development of new solutions or new features and capabilities to our existing solutions may require substantial investment, and we have no assurance that such investments will be successful. If customers do not widely adopt our new solutions, experiences, features, and capabilities, we may not be able to realize a return on our investment and our business, financial condition, and results of operations may be adversely affected.

Our new and existing solutions and changes to our existing solutions could fail to attain sufficient market acceptance for many reasons, including:

- Our failure to predict market demand accurately in terms of product functionality and to supply offerings that meet that demand in a timely fashion;
- Product defects, errors, or failures or our inability to satisfy customer service level requirements;
- Negative publicity or negative private statements about the security, performance, or effectiveness of our solutions or product enhancements;
- Delays in releasing to the market our new offerings or enhancements to our existing offerings, including new product modules;

- Introduction or anticipated introduction of competing solutions or functionalities by our competitors;
- Inability of our solutions or product enhancements to scale and perform to meet customer demands;
- Receiving qualified or adverse opinions in connection with security or penetration testing, certifications or audits, such as those related to IT controls and security standards and frameworks or compliance;
- Poor business conditions for our customers, causing them to delay software purchases;
- Reluctance of customers to purchase proprietary software solutions; and
- Reluctance of customers to purchase products incorporating open source software.

If we are not able to continue to identify challenges faced by our customers and develop, license, or acquire new features and capabilities for our solutions in a timely and cost-effective manner, or if such enhancements do not achieve market acceptance, our business, financial condition, results of operations, and prospects may suffer and our anticipated revenue growth may not be achieved.

Because we derive, and expect to continue to derive, a material portion of our revenue from implementation of our solutions, along with post-implementation services such as ongoing support and maintenance and professional services, market acceptance of these solutions, and any enhancements or changes thereto, is important to our success.

Our development cycles are often lengthy, and we may not have the resources available to complete development of new, enhanced or modified solutions. We may incur significant expenses before we generate revenues, if any, from our solutions.

Because certain of our solutions are complex and require rigorous testing, development cycles can be lengthy, taking us up to two years to develop and introduce new, enhanced or modified solutions. Moreover, development projects can be technically challenging and expensive. The nature of these development cycles may cause us to experience delays between the time we incur expenses associated with research and development and the time we generate revenues, if any, from such expenses. We may not have, in the future, sufficient funds or other resources to make the required investments in product development. Furthermore, we may invest substantial resources in the development of solutions that do not achieve market acceptance or commercial success. Even where we succeed in our sales efforts and obtain new orders from customers, the complexity involved in delivering our solutions to such customers makes it more difficult for us to consummate delivery in a timely manner and to recognize revenue and maximize profitability. Failure to deliver our solutions in a timely manner could result in order cancellations, damage our reputations and require us to indemnify our customers. Any of these risks relating to our lengthy and expensive development cycle could have a material adverse effect on our business, financial conditions and results of operations.

Our sales cycle is variable and often lengthy, depending upon many factors outside our control, which requires us to expend significant time and resources prior to generating associated revenues.

The typical sales cycle for certain of our solutions and services is lengthy and unpredictable, requires pre-purchase evaluation by a significant number of persons in our customers' organizations, and often involves a significant operational decision by our customers. Our sales efforts sometimes involve educating our customers, industry analysts and consultants about the use and benefits of our solutions, including the technical capabilities of those solutions and the efficiencies achievable by organizations deploying our solutions. Customers typically undertake a significant evaluation process, which frequently involves not only our solutions, but also those of our competitors, and can result in a lengthy sales cycle. Our sales cycle for new customers is sometimes one to two years and can extend even longer in some cases. We often spend substantial time, effort and money in our sales efforts without any assurance that such efforts will produce any sales.

Macro-economic headwinds caused by inflation, relatively high interest rates, global supply problems and fluctuations in currency exchange rates may adversely impact our revenues, profitability and cash flows.

Our business depends on various elements, including, the economic health of our current and prospective clients, worldwide economic conditions, and with respect to Sapiens, the overall demand within the global insurance technology sector. Sapiens markets and sells its insurance software solutions and services primarily in the European and North American regions, as well as, to a smaller extent, in various parts of the rest of the world. Adverse economic conditions in those markets, including due to lingering inflation, relatively high interest rates and decreased economic output, may reduce overall demand for its insurance software solutions and services. These factors could also delay or lengthen sales cycles, and inhibit international expansion of our subsidiaries and/or affiliates, and may also lead to longer collection cycles for payments due from customers, as well as result in an increase in customer bad debt. In addition, the weakening of European currencies in comparison to the U.S. dollar adversely impacted our subsidiary Sapiens revenues and results of operations as measured in U.S. dollars in 2022, in a material manner, and may again adversely impact, Sapiens' revenues and results of operations as measured in U.S. dollars. In addition, the weakening of New Israeli Shekel in comparison to the U.S. dollar adversely impacted, in a material manner, the revenues and results of operations of our Israeli based operations, as measured in U.S. dollars in 2023 compared to 2022 and may continue to adversely impact them in the future. In 2022 and 2023 Sapiens and Magic Software, respectively experienced a slower growth rate in revenues, profitability and cash flows as a result of those headwinds. While the implications of these macroeconomic trends for our business, results of operations and overall financial position remain uncertain over the long term, the headwinds that were generated by these trends have created challenges for Sapiens in the recent past and for Magic Software in 2023 as they experienced a slower growth rate in revenues, profitability and cash flows as a result of those headwinds. Please see "Risks Relating to our International Operations-Our international operations expose us to risks associated with fluctuations in foreign currency exchange rates that have been adversely affecting, and could continue to adversely affect, our business" for a discussion of the headwinds created by currency exchange rates.

In addition to exerting the foregoing impact, macro-economic headwinds may amplify a number of risks for us, including, but not limited to, the following:

- our ability to increase sales of new, enhanced solutions to existing customers may be hindered due to more cautious purchasing and investment strategies by corporate customers;
- reduced economic activity, which could lead to a prolonged recession, could negatively impact customer discretionary spending on insurance solutions, which in turn could substantially impact our business operations and financial condition in an adverse manner;
- our customer success efforts, our ability to enter into new markets and to acquire new customers may be impeded, in part due to lengthening of our sales cycles;
- there may be an increase in our credit losses reserves as customers face economic hardship and collectability becomes more uncertain, including due to the risk of bankruptcies;
- our ability to retain, attract and recruit employees may be adversely impacted if our growth rate and profitability decrease;
- our ability to complete acquisitions may be hampered if we need to seek financing for such acquisitions; and
- our ability to raise capital may be hurt.

The full impact of economic headwinds on our business and our future performance may also have the effect of heightening any of our other risk factors described in this annual report, and is difficult to predict how long those trends will continue, so there is some level of risk that any guidance we provide to the market may turn out to be incorrect.

Our business depends on generating and maintaining ongoing, profitable client demand for our services and solutions, including through the adaptation and expansion of our services and solutions in response to ongoing changes in technology and offerings, and a significant reduction in such demand or an inability to respond to the evolving technological environment could materially affect our results of operations.

Our revenue and profitability depend on the demand for our services and solutions with favorable margins, which could be negatively affected by numerous factors, many of which are beyond our control and unrelated to our work product. As described above, volatile, negative, or uncertain global economic and political conditions and lower growth or contraction in the markets we serve have adversely affected and could in the future adversely affect client demand for our services and software solutions. Our success depends, in part, on our ability to continue to develop and implement services and software solutions that anticipate and respond to rapid and continuing changes in technology and offerings to serve the evolving needs of our clients. Examples of areas of significant change include digital-, cloud- and security-related offerings, which are continually evolving, as well as developments in areas such as artificial intelligence, augmented reality, automation, Internet of Things, network engineering, digital engineering and manufacturing, and as-a-service solutions. As we expand our services and solutions into these new areas, we may be exposed to operational, legal, regulatory, ethical, technological and other risks specific to such new areas, which may negatively affect our reputation and demand for our services and solutions.

Technological developments may materially affect the cost and use of technology by our clients and, in the case of cloud and as-a-service solutions, could affect the nature of how we generate revenue. Some of these technological developments have reduced and replaced some of our historical services and solutions and may continue to do so in the future. This has caused, and may in the future cause, clients to delay spending under existing contracts and engagements and to delay entering into new contracts while they evaluate new technologies. Such technological developments and spending delays can negatively impact our results of operations if we are unable to introduce new pricing or commercial models that reflect the value of these technological developments or if the pace and level of spending on new technologies are not sufficient to make up any shortfall.

Developments in the industries we serve, which may be rapid, could also shift demand to new services and solutions. If, as a result of new technologies or changes in the industries we serve, our clients demand new services and solutions, we may be less competitive in these new areas or need to make significant investment to meet that demand. Our growth strategy focuses on responding to these types of developments by driving innovation that will enable us to expand our business into new growth areas. If we do not sufficiently invest in new technology and adapt to industry developments or evolve and expand our business at sufficient speed and scale, or if we do not make the right strategic investments to respond to these developments and successfully drive innovation, our services and solutions, our results of operations, and our ability to develop and maintain a competitive advantage and to execute on our growth strategy could be adversely affected.

We operate in a rapidly evolving environment in which there currently are, and we expect will continue to be, new technology entrants. New services or technologies offered by competitors or new entrants may make our offerings less differentiated or less competitive when compared to other alternatives, which may adversely affect the results of our operations. In addition, companies in the industries we serve sometimes seek to achieve economies of scale and other synergies by combining with or acquiring other companies. If one of our current clients merges or consolidates with a company that relies on another provider for the services and solutions we offer, we may lose work from that client or lose the opportunity to gain additional work if we are not successful in generating new opportunities from the merger or consolidation.

Many of our consulting contracts are less than 12 months in duration, and these contracts typically permit a client to terminate the agreement with as little as 30 days' notice. Longer-term, larger and more complex contracts, generally require a longer notice period for termination and often include an early termination charge to be paid to us, but this charge might not be sufficient to cover our costs or make up for anticipated ongoing revenues and profits lost upon termination of the contract. Many of our contracts allow clients to terminate, delay, reduce or eliminate spending on the services we provide. Additionally, a client could choose not to retain us for additional stages of a project, try to renegotiate the terms of its contract or cancel or delay additional planned work. When contracts are terminated or not renewed, we lose the anticipated revenues, and it may take significant time to replace the level of revenues lost. Consequently, our results of operations in subsequent periods could be materially lower than expected.

Investment in highly skilled research and development, product implementation, customer support and other personnel is a critical factor in our ability to develop and enhance our solutions and support our customers, but that personnel may nevertheless be hard to retain and an increase in that investment may furthermore reduce our profitability.

As a provider of proprietary software solutions that rely upon technological advancements, we rely heavily on our research and development activities to remain competitive. We consequently depend in large part on the ability to attract, train, motivate and retain highly skilled information technology professionals for our research and development team, as well as software programmers and communications engineers, and product implementation experts, particularly individuals with knowledge and experience in the insurance industry. Because our software solutions are highly complex and are generally used by our customers to perform critical business functions, we also depend heavily on other skilled technology professionals to provide ongoing support to our customers. Skilled technology professionals are often in high demand and short supply.

Our research and development, product delivery, and general and administrative, activities are conducted at locations where the competition for skilled technology professionals is particularly intense. While there has been strong competition for qualified human resources in the high-tech industry historically, the industry experienced record growth and activity over the last few years, both at the earlier stages of venture capital and growth equity financings, and at the exit stage of initial public offerings and mergers and acquisitions. This flurry of growth and activity caused a sharp increase in job openings in both high-tech companies and research and development centers, as well as the intensification of competition between employers to attract qualified employees in those jurisdictions. Employee attrition— for all fields and professions, and for all levels of management— accompanied this strong competition, and High-Tech companies such as ours that are based in Israel and these other jurisdictions have recently faced a shortage of skilled human capital, including engineering, research and development, sales and customer support personnel. Many of the companies with which we compete for qualified personnel may have greater resources than we do, and we may not succeed in recruiting additional experienced or professional personnel, retaining personnel or effectively replacing current personnel who may depart with qualified or effective successors.

While the foregoing trend has moderated over the last one to two years, if, going forward we are unable to hire or retain qualified research and development personnel and other technology professionals to develop, implement and modify our solutions, we may be unable to meet the needs of our customers. Even if we succeed at retaining the necessary skilled personnel in our research and development and customer support efforts, our investments in our personnel and product development efforts increase our costs of operations and thereby reduce our profitability, unless accompanied by increased revenues. As a result of the intense competition for qualified human resources, the High-Tech market in which we operate has experienced and may continue to experience significant wage inflation. Accordingly, our efforts to attract, retain and develop personnel may also result in significant additional expenses, which could adversely affect our profitability. Given the highly competitive industry in which we operate, we may not succeed in increasing our revenues in line with our increasing investments in our personnel and research and development efforts.

Furthermore, as we seek to expand the marketing and offering of our products and services into new territories, it requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to generate in those territories, or may not be available at all. In particular, wage costs in lower-cost markets where we have recently added personnel, such as India, are increasing and we may need to increase the levels of our employee compensation more rapidly than in the past to remain competitive. The transition of projects to new locations may also lead to business disruptions due to differing levels of employee knowledge and organizational and leadership skills. Although we have never experienced an organized labor dispute, strike or work stoppage, any such occurrence, including with unionization efforts, could disrupt our business and operations and harm our financial condition. In addition, we may need to attract and train additional IT professionals at a rapid rate in order to serve several new customers or implement several new large-scale projects in a short period of time. If there is a downturn in economic conditions generally or in areas in which our solutions and services are provided in particular and we need to lay off some of those employees, that will result in our loss of the time and resources that we had invested in training them, and our loss of their accumulated know-how.

Failure to manage our growth— both organic and non-organic—could effectively harm our business.

In recent years, we experienced, and expect to continue to experience in the future, growth in our international operations that has placed, and will continue to place, a significant strain on our operational and financial resources and our personnel. To manage our anticipated future growth effectively, we must continue to maintain and may need to enhance our information technology infrastructure, financial and accounting systems and controls and manage expanded operations and employees in geographically distributed locations. We also must attract, train and retain a significant number of additional qualified sales and marketing personnel, professional services personnel, software engineers, technical personnel and management personnel. Our failure to manage our growth effectively could have a material adverse effect on our business, results of operations and financial condition. Our growth could require significant capital expenditures and may divert financial resources from other projects, such as the development of new services or product enhancements. For example, since it may take as long as six months to hire and train a new member of our professional services staff, we make decisions regarding the size of our professional services staff based upon our expectations with respect to customer demand for our products and services. If these expectations are incorrect, and we increase the size of our professional services organization without experiencing an increase in sales of our products and services, we will experience reductions in our gross and operating margins and net income. If we are unable to effectively manage our growth, our expenses may increase more than expected, our revenues could decline or grow more slowly than expected and we may be unable to implement our business strategy. Our growth may also be accompanied by greater exposure to litigation, including suits by clients, vendors, employees or former employees, as the sizes of our workforce and our overall international operations increase. All such litigation carries with it related costs and could divert our management's attention from ongoing business concerns. We also intend to continue to expand into additional international markets which, if not technologically or commercially successful, could harm our financial condition and prospects.

The market for software solutions and related services is highly competitive and dynamic, and we need to adapt quickly to trends in order to retain or grow our market share.

The market for software solutions and related services, including for business solutions for the insurance and financial services industry, in which we compete, is highly competitive and continuously evolving.

Our competitors include, with respect to Magic Software and Matrix IT:

- multinational IT service providers, including the services arms of global technology providers;
- off-shore IT service providers in lower-cost locations such as India and Eastern Europe;
- accounting firms and consultancies that provide consulting and other IT services and solutions;
- solution or service providers that compete with us in a specific geographic market, industry or service area, including advertising agencies, engineering services providers and technology start-ups and other companies that can scale rapidly to focus on or disrupt certain markets and provide new or alternative products, services or delivery models; and
- in-house IT departments that use their own resources, rather than engage an outside firm.

With respect to Sapiens' insurance software solutions, our competitors generally consist of:

- global software providers with their own IP;
- local/domestic software vendors with their own IP, operating in a designated geographic market and/or within a designated segment of the insurance industry;
- BPO providers (as described below in this risk factor) who offer end-to-end outsourcing of insurance carriers' business, including core software administration (although BPO providers want to buy comprehensive software platforms to serve as part of the BPO proposition from vendors and may seek to purchase our solutions for this purpose);
- internal IT departments, who often prefer to develop solutions in-house; and
- new insurtech companies with niche solutions.

Our failure to adapt to changing market conditions and to compete successfully with established or new competitors could have a material adverse effect on our results of operations and financial condition. Many of our smaller competitors have been acquired by larger competitors, which provides those smaller competitors with greater resources and potentially a larger client base for which they can develop solutions. Our customers or potential customers may prefer suppliers that are larger than us, are better known in the market or that have a greater global reach. In lieu of being acquired by larger competitors, current and potential competitors have established, and may establish in the future, cooperative relationships among themselves, or with third parties to increase their abilities to address the needs of our existing, or prospective, customers. As a result, our competitors may be able to adapt more quickly than us to new or emerging technologies and changes in customer requirements, and may be able to devote greater resources to the promotion and sale of their products. As a means of adapting to competition, we and some of our competitors have developed systems to allow customers to outsource their core systems to external providers (known as BPO). We are seeking to partner with BPO providers, but there can be no assurance that such BPO providers will adopt our solutions rather than those of our competitors. Determinations by current and potential customers to use BPO providers that do not use our solutions may result in the loss of such customers and limit our ability to gain new customers.

A number of our competitors also have operational advantages relative to us, as they are generally private companies that are not required to report results of operations on a regular basis, and can consequently benefit from the ability to take more risky actions in the hope of building up strong brand name recognition, such as payment of higher salaries as a recruitment tool, sale of products at cheaper prices, and very rapid growth of sales and marketing teams, even if those actions result in operating losses.

To compete in the rapidly changing environment, and win the competition for end-customers, we also need to offer a coherent digital and data propositions, allowing our insurance provider customers to better interact with their own customers in a digital and omni-channel manner. If we fail to adapt and accelerate the development of our digital and data offerings, that may adversely impact our ability to compete in some of our target markets. Consolidation in the insurance industry in which some of our clients operate also increases competitiveness for us by reducing the number of potential clients for whose business we and our competitors compete. The high level of continuity with which insurance and other financial services clients remain with their providers of software-related services also increases general competitiveness by tying clients to their service providers and thereby shrinking the market of potential clients.

Our competitiveness in the market is also tied to our ability to adapt quickly to the movement towards cloud-based solutions. Our ability to provide solutions that may be deployed in the cloud has required, and may continue to require, considerable investment in resources, including technical, financial, legal, sales, information technology and operational systems. Market acceptance of cloud offerings is affected by a variety of factors, including but not limited to: security, service availability, reliability, availability of tools to automate cloud migration, scalability, integration with public cloud platforms, customization, availability of qualified third-party service providers to assist customers in transitioning to cloud-based solutions, performance, current license terms, customer preference, customer concerns with entrusting a third party to store and manage their data, public concerns regarding privacy and the enactment of restrictive laws or regulations. We may not meet our financial and strategic objectives if the pace at which we transform our solutions to be cloud-compatible is slower than our customers' adoption of cloud-based solutions. To address the challenges in transitioning our customers to the cloud, we continue to invest in innovation and feature development, simplified cloud migration, and performance and reliability, as well as other cloud customer success and sales initiatives. There can be no assurance, however, that these initiatives will improve our ability to capture or retain customers that prefer cloud-based solutions. If we are unable to win over those new customers or retain those existing customers, we may experience a negative impact on our overall financial performance.

This movement towards cloud-based solutions is occurring in the insurance and financial services sectors in which our subsidiary Sapiens operates, and also in other sectors in which our subsidiaries operate. The rising trend of Matrix's and Magic Software's customers to switch to cloud-based solutions, is, on the one hand, a business opportunity for us to expand our cloud-based offerings, yet, on the other hand, also carries with it the risk of those customers consuming less of the other services provided by us. For example, in the marketing and software support solutions sector, Matrix and Magic Software have many opportunities for marketing new software solutions products and related services, new solutions which are cloud-based. Yet, in many cases these will be an alternative to our traditional software solutions products, which are also being promoted by Matrix and Magic Software. As long as the decrease in demand for Matrix's and Magic Software's services, due to customers switching to cloud based solutions, is greater than the increase in demand for Matrix's and Magic Software's cloud-based solutions, the business results of Matrix and Magic Software may be harmed.

Additionally, the gross profit derived by Matrix and by Magic Software from their cloud-based solutions may be lower than the gross profit that they derive from their traditional solutions, which were replaced by the cloud-based solutions.

We may be required to increase or decrease the scope of our operations in response to changes in the demand for our products and services, and if we fail to successfully plan and manage changes in the size of our operations, our business will suffer.

In the past, we have both grown and contracted our operations, in some cases rapidly, to profitably offer our products and services in a continuously changing market. If we are unable to manage these changes, or to plan and manage any future changes in the size and scope of our operations, our business may be negatively impacted.

Restructurings and cost reduction measures that we have implemented in the past have reduced the size of our subsidiaries' operations and workforce. Reductions in personnel can result in significant severance, administrative and legal expenses, and may also adversely affect or delay various sales, marketing and product development programs and activities. These cost reduction measures have included, and may in the future include, employee separation costs and consolidating and/or relocating certain of our subsidiaries' operations to different geographic locations.

Acquisitions, organic growth and absorption of significant numbers of customers' employees in connection with managed services projects have, from time to time, increased our subsidiaries' headcount. During periods of expansion, our subsidiaries may need to serve several new customers or implement several new large-scale projects in short periods of time. This may require our subsidiaries to attract and train additional IT professionals at a rapid rate, as well as quickly expand their facilities, which may be difficult to successfully implement.

If existing customers are not satisfied with our solutions and services and either do not make subsequent purchases from us or do not continue using such solutions and services, or if our relationships with our largest customers are impaired, our revenue could be negatively affected.

We depend to an extent on repeat product and service revenues from our base of existing customers. For example, five of Sapiens' largest customers accounted for, in the aggregate, 12.9% and 15.5% of its revenues in the years ended December 31, 2023 and 2022, respectively. Two of Magic Software's largest clients accounted together for 16.8% and 20.6% of its revenues in the years ended December 31, 2023 and 2022, respectively, and five of Magic Software's largest clients accounted for 22.9% and 26.4% of its revenues in the years ended December 31, 2023 and 2022, respectively. If our existing customers are not satisfied with our solutions and services, they may not enter into new project contracts with us or continue using our technologies. A significant decline in our revenue stream from existing customers, including due to termination of agreement(s), would have an adverse effect on our business, results of operations and financial condition. For example, in 2023, one of Magic Software's largest revenue generating clients, without advance notice, and due to reasons unrelated to Magic Software's services, suspended significant parts of its active time and material-based projects with Magic Software.

We are in part dependent on a limited number of core product families, and a decrease in revenues from these products would adversely affect our business, results of operations and financial condition; our future success will be partially dependent on the acceptance of future releases of our core product offerings, and if we are unsuccessful with these efforts, our business, results of operations and financial condition will be adversely affected.

We (through our Magic Software subsidiary) derive a portion of our revenues and profits from sales of application and integration platforms and vertical software solutions and from related professional services, software maintenance and technical support. Our future growth depends in substantial part on our ability to effectively develop and sell new products developed by us or acquired from third parties as well as add new features to existing products and new software service offerings. A decrease in revenues from our principal products and related services would adversely affect our business, results of operations and financial condition.

Our future success depends in part on the continued acceptance of our application platforms and integration products and our vertical packaged software solutions. The continued acceptance of our platforms and software solutions will be dependent in part on the continued acceptance and growth of the cloud market, including rich internet applications, or RIAs, mobile and software as a service, or SaaS, for which certain of them are particularly useful and advantageous. We will need to continue to enhance our products to meet evolving requirements and if new versions of such products are not accepted, our business, results of operations and financial condition may be adversely affected.

Our business sometimes involves long-term, large, complex implementation projects across the globe, which involve uncertainties, mainly during the implementation period, such as changes to the estimated project costs and changes in project schedule. Such changes may cause disputes between us and our customers, whether or not due to failure on our part, and may in some cases result in cancellation of those projects. Such cancellation can adversely impact our revenues, profitability and/or, in some cases, our relationship with the relevant customer.

Our business is, in part, characterized by relatively large, complex implementation projects or engagements that can have a material impact on our total revenue and cost of revenue from quarter to quarter. A material percentage of our expenses, particularly employee compensation, are relatively fixed. Therefore, variations in the timing of the initiation, estimated scope of work, progress or completion of projects or engagements can cause significant variations in operating results from quarter to quarter.

This is particularly the case for fixed-price contracts, where our delivery requirements sometimes span more than one year. For a highly complex, fixed-price project that requires customization, we may not be able to accurately estimate our actual costs of completing the project. We are sometimes dependent on the assistance of third-parties (such as our customers' vendors or IT employees, or our system integrator partners) in implementing such projects, which may not be provided in a timely manner. If our actual cost-to-completion of a project significantly exceeds the estimated costs, we could experience a loss on the related contract, which (when multiplied by multiple projects) could have an adverse effect on our results of operations, financial position and cash flow.

Similarly, delays in implementation projects (whether fixed price or not) may affect our revenue and cause our operating results to vary. Some of our solutions are delivered over periods of time ranging from several months to a few years. Payment terms for those solutions are generally based on periodic payments or on the achievement of milestones. Any delays in payment or in the achievement of milestones may have an adverse effect on our results of operations, financial position or cash flows.

For non-fixed price contracts, we generally provide our customers with up-front estimates regarding the duration, budget and costs associated with the implementation of their project. Due to the complexities described above, however, we may not meet those upfront estimates and/or the expectations of our customers, which could lead to a dispute with a client. In the past, these disputes have sometimes arisen with significant customers of Sapiens that have accounted for a significant portion of its revenues, and the settlement of these disputes reduced its revenues and operating profit relative to its prior estimates. In 2023 and 2022, certain customers of Sapiens canceled projects with us at the stage of implementation, resulting in the loss of potential future revenues from those customers. We expect that we may have similar cancellations by our customers in the future, during the implementation phase. These cancellations, if coupled with disputes with significant customers in the future, whether or not due to failure on our part, could result in lost revenues, lower profit margins, legal claims against us and even the refund of the customers' money and could harm our reputation, thereby adversely affecting our ability to attract new customers and to sell additional solutions and services to existing customers.

We may encounter difficulties in realizing the potential financial or strategic benefits of recent business acquisitions. We expect to make additional acquisitions in the future that could disrupt our operations and harm our operating results.

A significant part of our business strategy is to pursue acquisitions and other initiatives based on strategy centered on three key factors: growing our customer base, expanding geographic footprint and adding complementary solutions to our portfolio—all while we seek to ensure our continued high quality of services and product delivery. In the past five years we made numerous acquisitions.

Mergers and acquisitions of companies are inherently risky and subject to many factors outside of our control and no assurance can be given that our future acquisitions will be successful and will not adversely affect our business, operating results, or financial condition. In the future, we may seek to acquire or make strategic investments in complementary businesses, technologies, services or products, or enter into strategic partnerships or alliances with third parties in order to expand our business. Failure to manage and successfully integrate such acquisitions could materially harm our business and operating results. Prior acquisitions have resulted in a wide range of outcomes, from successful introduction of new products technologies and professional services to a failure to do so. Even when an acquired company has previously developed and marketed products, there can be no assurance that new product enhancements will be made in a timely manner or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products. If we acquire other businesses, we may face difficulties, including:

- Difficulties in integrating the operations, systems, technologies, products, and personnel of the acquired businesses or enterprises;
- Diversion of management's attention from normal daily operations of the business and the challenges of managing larger and more widespread operations resulting from acquisitions;
- Integrating financial forecasting and controls, procedures and reporting cycles;
- Potential difficulties in completing projects associated with in-process research and development;
- Difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- Insufficient revenue to offset increased expenses associated with acquisitions; and
- The potential loss of key employees, customers, distributors, vendors and other business partners of the companies we acquire following and continuing after announcement of acquisition plans.

We may be liable to our clients for damages caused by a violation of intellectual property rights, the disclosure of other confidential information, including personally identifiable information, system failures, errors or unsatisfactory performance of services, and our insurance policies may not be sufficient to cover these damages.

We often have access to, and are required to collect and store, sensitive or confidential client information, including personally identifiable information. Some of our client agreements do not limit our potential liability for breaches of confidentiality, infringement indemnity and certain other matters. Furthermore, breaches of confidentiality may entitle the aggrieved party to equitable remedies, including injunctive relief. If any person, including any of our employees and subcontractors, penetrates our network security or misappropriates sensitive or confidential client information, including personally identifiable information, we could be subject to significant liability from our clients or from our clients' customers for breaching contractual confidentiality provisions or privacy laws. Despite measures we take to protect the intellectual property and other confidential information or personally identifiable information of our clients, unauthorized parties, including our employees and subcontractors, may attempt to misappropriate certain intellectual property rights that are proprietary to our clients or otherwise breach our clients' confidences. Unauthorized disclosure of sensitive or confidential client information, including personally identifiable information, or a violation of intellectual property rights, whether through employee misconduct, breach of our computer systems, systems failure or otherwise, may subject us to liabilities, damage our reputation and cause us to lose clients.

Many of our contracts involve projects that are critical to the operations of our clients' businesses and provide benefits to our clients that may be difficult to quantify. Any failure in a client's system or any breach of security could result in a claim for substantial damages against us, regardless of our responsibility for such failure. Furthermore, any errors by our employees in the performance of services for a client, or poor execution of such services, could result in a client terminating our engagement and seeking damages from us.

In addition, while we have taken steps to protect the confidential information that we have access to, including confidential information we may obtain through usage of our cloud-based services, our security measures may be breached. If a cyber-attack or other security incident were to result in unauthorized access to or modification of our customers' data or our own data or our IT systems or in disruption of the services we provide to our customers, or if our products or services are perceived as having security vulnerabilities, we could suffer significant damage to our business and reputation.

Although we attempt to limit our contractual liability for consequential damages in rendering our services, these limitations on liability may not apply in all circumstances, may be unenforceable in some cases, or may be insufficient to protect us from liability for damages. There may be instances when liabilities for damages are greater than the insurance coverage we hold and we will have to internalize those losses, damages and liabilities not covered by our insurance.

Changes in privacy regulations may impose additional costs and liabilities on us, limit our use of information, and adversely affect our business.

Personal privacy has become a significant issue in the United States, Europe, and many other countries where we operate. Many government agencies and industry regulators continue to impose new restrictions and modify existing requirements about the collection, use, and disclosure of personal information. Changes to laws or regulations affecting privacy and security may impose additional liability and costs on us and may limit our use of such information in providing our services to customers. If we were required to change our business activities, revise or eliminate services or products, or implement burdensome compliance measures, our business and results of operations may be harmed. Additionally, we may be subject to regulatory enforcement actions resulting in fines, penalties, and potential litigation if we fail to comply with applicable privacy laws and regulations.

In particular, our European activities are subject to the European Union General Data Protection Regulation, or GDPR, which has created additional compliance requirements for us. GDPR broadens the scope of personal privacy laws to protect the rights of European Union citizens and requires organizations to report on data breaches within 72 hours and be bound by more stringent rules for obtaining the consent of individuals on how their data can be used. GDPR became enforceable on May 25, 2018 and non-compliance may expose entities such as our company to significant fines or other regulatory claims. In the United States, our operations in various states, such as New York and California, are now subject to expanded privacy regulations. In California, we are subject to the California Consumer Privacy Act, or CCPA, a statute that went into effect on January 1, 2020. The CCPA imposes enhanced disclosure requirements for us regarding our interactions with customers who are residents of California, such as comprehensive privacy notices for consumers when we, or our agents, collect their personal information. We may be further required to ensure third-party compliance, as under the CCPA we could be liable if third parties that collect, process or retain personal information on our behalf violate the CCPA's privacy requirements. The sanctions for non-compliance could include fines and/or civil lawsuits. Other U.S. states, including Colorado, Virginia, Utah, Texas and Connecticut, have enacted similar - but not identical - laws, which either are or will go into effect in 2023 and beyond.

Any failure or perceived failure (including as a result of deficiencies in our policies, procedures or measures relating to privacy, data protection, marketing or client communications) by us to comply with laws, regulations, policies, legal or contractual obligations, industry standards or regulatory guidance relating to privacy or data security, may result in governmental investigations and enforcement actions, litigation, fines and penalties or adverse publicity and could cause our clients and partners to lose trust in us, which could have an adverse effect on our reputation and business. We expect that there will continue to be new proposed laws, regulations and industry standards relating to privacy, data protection, marketing, consumer communications and information security in the United States, the United Kingdom, the European Economic Area and other jurisdictions, and we cannot determine the impact such future laws, regulations and standards may have on our business. While we have invested in, and intend to continue to invest in, reasonably necessary resources to comply with these standards, to the extent that we fail to adequately comply, that failure could have an adverse effect on our business, financial conditions, results of operations and cash flows.

Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business.

A significant invasion, interruption, destruction or breakdown of our information technology, or IT, systems and/or infrastructure by persons with authorized or unauthorized access could negatively impact our business and operations. We could also experience business interruption, information theft and/or reputational damage from cyber-attacks, which may compromise our systems and lead to data leakage internally. Both data that has been input into our main IT platform, which covers records of transactions, financial data and other data reflected in our results of operations, as well as data related to our proprietary rights (such as research and development, and other intellectual property- related data), are subject to material cyber security risks. From time to time, we experience cyber-attacks and other security incidents of varying degrees, though none which individually or in the aggregate has led to costs or consequences which have materially impacted our operations or business. Sapiens experienced attacks in or about April 2020, which resulted in a ransom payment and a brief interruption of service availability to customers, prior to restoration of secure computing operations. The amount paid in connection with, and the consequences of, the foregoing did not have a material adverse effect on Sapiens' or our business or operations. In response, we and Sapiens implemented further controls and planned for other preventative actions to further strengthen our systems against future attacks. We also have in place disclosure controls that require the reporting of a cyber attack internally, which help to ensure that our senior management team has relevant information concerning such an attack in a timely manner upon its discovery. However, we cannot assure you that such measures will provide absolute security, that we will be able to react in a timely manner, or that our remediation efforts following past or future attacks will be successful.

Outside parties have furthermore in the past, and may also in the future, attempt to fraudulently induce our subsidiaries' employees to disclose sensitive, personal or confidential information via illegal electronic spamming, phishing or other tactics. This existing risk is compounded in the aftermath of the COVID-19 pandemic, as some of our subsidiaries have implemented in their offices a hybrid model where a large portion of their workforce spends a portion of their time working in their offices and a portion of their time working from home. Unauthorized parties may also attempt to gain physical access to our subsidiaries' facilities in order to infiltrate their or our information systems or attempt to gain logical access to our subsidiaries' products, services, or information systems for the purpose of exfiltrating content and data. These actual and potential breaches of our and our subsidiaries' security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about us, our subsidiaries, their employees or their customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose us, our subsidiaries, their employees or their customers to a risk of loss or misuse of this information. This may result in litigation and liability or fines, our or our subsidiaries' compliance with costly and time-intensive notice requirements, governmental inquiry or oversight or a loss of customer confidence, any of which could harm our subsidiaries' business or damage our or their brand and reputation, thereby requiring time and resources to mitigate these impacts.

In addition, we and our subsidiaries, including Sapiens, rely on third party vendors and their employees for the implementation of our solutions, which heightens our exposure to potential cyber incidents. In particular, that reliance raises the following cyber risks, among others:

- When third-party vendors handle sensitive information, they can become a target for cybercriminals who aim to steal that data.
- Third-party software or systems could introduce malware, viruses, or other malicious code into the networks of our subsidiaries, causing significant damage.
- Cybercriminals can infiltrate the supply chain of a third-party vendor to gain access to their systems and data, potentially compromising our organization as well.
- Third-party employees with access to the systems or data of any of our subsidiaries can intentionally or unintentionally cause damage or data leaks.
- Third-party vendors may not comply with data protection regulations or cybersecurity standards, which could result in legal penalties or reputational damage for us and our subsidiaries.
- If a third-party vendor experiences a cyber incident or data breach, it could interrupt its services, affecting Sapiens as well.

Our subsidiaries have invested in advanced detection, prevention and proactive systems to reduce these risks. Based on independent audits, we believe that our subsidiaries' level of protection is in keeping with the industry standards of peer technology companies. Our subsidiaries also maintain a disaster recovery solution, as a means of assuring that a breach or cyber-attack does not necessarily cause the loss of their information. They furthermore review their protections and remedial measures periodically in order to ensure that such measures are adequate. Our subsidiaries devote resources to address security vulnerabilities through enhancing security and reliability features in their systems, code hardening, conducting rigorous penetration tests, deploying updates to address security vulnerabilities, providing resources such as mandatory security training for their workforce and improving their incident response time, but security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our subsidiaries' or our operating margins.

Despite these protective systems and remedial measures, techniques used to obtain unauthorized access are constantly changing, are becoming increasingly more sophisticated and often are not recognized until after an exploitation of information has occurred. We and our subsidiaries may be unable to anticipate these techniques or implement sufficient preventative measures, and we therefore cannot assure you that our and our subsidiaries' preventative measures will be successful in preventing compromise and/or disruption of our or their information technology systems and related data. We furthermore cannot be certain that our or our subsidiaries' remedial measures will fully mitigate the adverse financial consequences of any cyber-attack or incident. If we or our subsidiaries do not make the appropriate level of investment in our or their technology systems or if such systems become out-of-date or obsolete and we or they are not able to deliver the quality of data security that meet our or their independent security control certification requirements, our consolidated business could be adversely affected.

Security vulnerabilities in our software solutions could lead to reduced revenue or to liability claims.

Maintaining the security of the software solutions and related services that we offer is a critical issue for us and our customers. Security researchers, criminal hackers and other third parties regularly develop new techniques to penetrate our customers' end points, information systems and network security measures. Cyber threats are constantly evolving and becoming increasingly sophisticated and complex, making it increasingly difficult to detect and successfully defend against them. Unauthorized parties have, in the past, infiltrated Sapiens' internal IT systems, gaining access to certain proprietary information. If they were to similarly breach the security related to, and misuse, software solutions that we offer, they might access the authentication, payment and personal information of our customers. In addition, cyber-attackers (which may include individuals or groups, as well as sophisticated groups such as nation-state and state-sponsored attackers, which can deploy significant resources to plan and carry out exploits) also develop and deploy viruses, worms, credential stuffing attack tools and other malicious software programs, some of which may be specifically designed to attack the solutions and services that we offer. Software and operating system applications that we develop have contained and may contain defects in design or manufacture, including bugs, vulnerabilities and other problems that could unexpectedly compromise the security of the software or impair a customer's ability to operate or use our solutions. The costs to prevent, eliminate, mitigate, or alleviate cyber- or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities are significant, and our efforts to address these problems, including notifying affected parties, may not be successful or may be delayed and could result in interruptions, delays, cessation of service and loss of existing or potential customers. It is impossible to predict the extent, frequency or impact these problems may have on us.

Actual and potential breaches of our security measures and the accidental loss, inadvertent disclosure or unauthorized dissemination of proprietary information or sensitive, personal or confidential data about our customers, including the potential loss or disclosure of such information or data as a result of hacking, fraud, trickery or other forms of deception, could expose our customers to a risk of loss or misuse of this information. This may result in litigation and liability or fines, our compliance with costly and time-intensive notice requirements, governmental inquiry or oversight or a loss of customer confidence, any of which could harm our business or damage our brand and reputation, thereby requiring time and resources to mitigate these impacts.

From time to time we have identified, and in the future we may identify other, vulnerabilities in some of our solutions and services. We devote significant resources to address security vulnerabilities through engineering more secure solutions, enhancing security and reliability features in our solutions and services, code hardening, conducting rigorous penetration tests, deploying updates to address security vulnerabilities, regularly reviewing our solutions' security controls, reviewing and auditing our solutions against independent security control frameworks (such as ISO 27001, SOC 2), providing resources such as security training for our customers' workforces and improving our incident response time, but security vulnerabilities cannot be totally eliminated. The cost of these steps could reduce our subsidiaries' or our operating margins, and we may be unable to implement these measures quickly enough to prevent cyber-attackers from gaining unauthorized access into our solutions. Despite our preventative efforts, actual or perceived security vulnerabilities in our solutions may harm our subsidiaries' or our reputation or lead to claims against our subsidiaries (and have in the past led to such claims) or us, and could lead some customers to stop using certain systems or services, to reduce or delay future purchases of solutions or services, or to use competing solutions or services. If we do not make the appropriate level of investment in our solutions or if our solutions become out-of-date or obsolete and we are not able to deliver the quality of data security our customers require, our business could be adversely affected. Customers may also adopt security measures designed to protect their existing computer systems from attack, which could delay their adoption of our new solutions. Moreover, delayed sales, lower margins or lost customers resulting from disruptions caused by cyber-attacks and implementation of preventative measures could adversely affect our financial results, share price and reputation.

Errors or defects in our software solutions could inevitably arise and harm our profitability and our reputation with customers, and could even give rise to claims against us.

The quality of our solutions, including new, modified or enhanced versions thereof, is critical to our success. Since our software solutions are complex, they may contain errors that cannot be detected at any point in their testing phase. While we continually test our solutions for errors or defects and work with customers to identify and correct them, errors in our technology may be found in the future. Quality assurance is complicated because it is difficult to simulate the breadth of operating systems, user applications and computing environments that our customers use, and our solutions themselves are increasingly complex. Errors or defects in our technology have resulted in terminated work orders and could result in delayed or lost revenue, diversion of development resources and increased services, termination of work orders, damage to our brand and warranty and insurance costs in the future. In addition, time-consuming implementations may also increase the number of services personnel we must allocate to each customer, thereby increasing our costs and adversely affecting our business, results of operations and financial condition.

In addition, since our customers rely on our solutions to operate, monitor and improve the performance of their business processes, they are sensitive to potential disruptions that may be caused by the use of, or any defects in, our software. As a result, we may be subject to claims for damages related to software errors in the future. Liability claims could require us to spend significant time and money in litigation or to pay significant damages. Regardless of whether we prevail, diversion of our subsidiaries' key employees' time and attention from our business, the incurrence of substantial expenses and potential damage to our reputation might result. While the terms of our sales contracts typically limit our exposure to potential liability claims and we carry errors and omissions insurance against such claims, there can be no assurance that such insurance will continue to be available on acceptable terms, if at all, or that such insurance will provide us with adequate protection against any such claims. A significant liability claim against us could have a material adverse effect on our business, results of operations and financial position.

Incorrect or improper use of our products or our failure to properly train customers on how to implement or utilize our products could result in customer dissatisfaction and negatively affect our business, results of operations, financial condition and growth prospects.

Some of our products are more complex than others and are deployed in a wide variety of network environments. The proper use of our solutions requires training of the customer. If our solutions are not used correctly or as intended, inadequate performance may result. Additionally, our customers or third-party partners may incorrectly implement or use our solutions. Our solutions may also be intentionally misused or abused by customers or their employees or third parties who are able to access or use our solutions. Similarly, our solutions are sometimes installed or maintained by customers or third parties with smaller or less qualified IT departments, potentially resulting in sub-optimal installation and, consequently, performance that is less than the level anticipated by the customer. Because our customers rely on our software, services and maintenance support to manage a wide range of operations, the incorrect or improper use of our solutions, our failure to properly train customers on how to efficiently and effectively use our solutions, or our failure to properly provide implementation or maintenance services to our customers, has resulted in terminated work orders and may result in termination of work orders, negative publicity or legal claims against us in the future. Also, as we continue to expand our customer base, any failure by us to properly provide these services will likely result in lost opportunities for follow-on sales of our software and services.

In addition, if there is substantial turnover of customer personnel responsible for implementation and use of our products, or if customer personnel are not well trained in the use of our products, customers may defer the deployment of our products, may deploy them in a more limited manner than originally anticipated or may not deploy them at all. Further, if there is substantial turnover of the customer personnel responsible for implementation and use of our products, our ability to make additional sales may be substantially limited.

Catastrophes may adversely impact the insurance industry, preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Magic and Matrix customers but more particularly and to much larger extent Sapiens' customers include insurance carriers that have experienced, and will likely experience in the future, catastrophic losses that adversely impact their businesses. Catastrophes can be caused by various events, including, amongst others, hurricanes, tsunamis, floods, windstorms, earthquakes, hail, tornados, explosions, severe weather and fires, or the spread of pandemics of disease, such as the coronavirus. Moreover, acts of terrorism or war could cause disruptions in Sapiens' or our customers' businesses or the economy as a whole. The risks associated with natural disasters and catastrophes are inherently unpredictable, and it is difficult to predict the timing of such events or estimate the amount of loss they will generate. In the event a future catastrophe adversely impacts Sapiens' or our current or potential customers, they or we may be prevented from maintaining and expanding their or our customer base and from increasing their or our revenues because such events may cause customers to postpone purchases of new products and professional service engagements or discontinue projects.

The increasing amount of identifiable intangible assets and goodwill recorded on our consolidated statements of financial position may lead to significant impairment charges in the future.

The amount of goodwill and identifiable intangible assets on our consolidated balance sheet has increased significantly over the last five years from approximately \$790.7 million as of December 31, 2018 to \$1,143.5 million as of December 31, 2023 because of our acquisitions, and may increase further following future acquisitions. We regularly review our long-lived assets, including identifiable intangible assets and goodwill, for impairment. Goodwill and indefinite life intangible assets are subject to impairment review at least annually. Other long-lived assets are reviewed when there is an indication that impairment may have occurred. Impairment testing, subject to downturns in our operating results and financial condition, may lead to impairment charges in the future. Any significant impairment charges could have a material adverse effect on our results of operations.

Decreases in the capital markets may adversely impact the industries in which we operate, thereby preventing us from expanding or maintaining our existing customer base and increasing our revenues.

Our customers and to a much greater extent Sapiens' customers, include life insurance carriers and other financial industry participants that have invested some of their funds in the capital markets. Those carriers may experience in the future major losses in those capital market investments that may cause disruptions to their businesses or to the economy as a whole. Any such major disruption, may cause those existing or potential new customers to postpone purchases of new products or professional service engagements, or discontinue existing projects, which, in turn, may prevent us from increasing our revenues, or from maintaining or expanding our customer base.

There may be consolidation in the insurance or other markets in which we operate, which could reduce the use of our products and services and adversely affect our revenues.

Mergers or consolidations among our customers could reduce the number of our customers and potential customers. This could adversely affect our revenues even if these events do not reduce the aggregate number of customers or the activities of the consolidated entities. If our customers merge with or are acquired by other entities that are not our customers, or that use fewer of our products and services, they may discontinue or reduce their use of our products and services. Any of these developments could materially and adversely affect our results of operations and cash flows.

Our and our investees' credit facility agreements with banks and other financial institutions, and our investees' debentures, are subject to a number of restrictive covenants which, if breached, could result in acceleration of our obligation to repay our debt.

In the context of our and our subsidiaries' and affiliate's engagements with banks and other financial institutions for receiving various credit facilities and under the terms governing our Series A Secured Debentures and Series C Secured Debentures, Matrix Series B Debentures and Sapiens' non-convertible unsecured Series B Debentures, we have undertaken to comply with a number of conditions and limitations on the manner in which we can operate our business. These include limitations on our ability to undergo a change of control, distribute dividends, incur debt or a floating charge on our assets, or undergo an asset sale or other change that results in a fundamental change in our operations. These credit facilities, agreements and deed of trusts that we and our subsidiaries have entered into with the trustees for the holders of each of our debentures also require us and our subsidiaries to comply with certain financial covenants. Those covenants include maintenance of certain financial ratios related to shareholders' equity, total rate of debt and liabilities, minimum outstanding balance of total cash and short-term investments, and operating results that are customary for companies of comparable size, and maintenance of a minimum rating level for the debentures. These limitations and covenants may force us to pursue less than optimal business strategies or forego business arrangements which could have been financially advantageous to us and, by extension, to our shareholders. The deeds of trust of each of our debentures furthermore provides for an upwards adjustment in the interest rate payable under the debentures in the event that our debentures' rating is downgraded below a certain level. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the rating of any of our debentures (below BBB-) would constitute an event of default that could result in the acceleration of our obligation to repay the debentures, which accelerated repayment may be difficult for us to effect. In addition, the Formula Series A Secured Debentures and Series C Secured Debentures are secured by certain of the shares of Formula's publicly held subsidiaries— Matrix, Sapiens and Magic Software. A breach of the restrictive covenants could result in the acceleration of our obligations to repay Formula's or its subsidiaries' debt.

Risks Related to Intellectual Property

Assertions by third parties of infringement or other violation by us of their intellectual property rights could result in significant costs and substantially harm our business and results of operations.

The software industry is characterized by the existence of a large number of patents and frequent claims and related litigation regarding patents and other intellectual property rights. In particular, leading companies in the software industry own large numbers of patents, copyrights, trademarks and trade secrets, which they may use to assert claims against us. From time to time, third parties, including certain of these leading companies, may assert patent, copyright, trademark or other intellectual property claims against us, our customers and partners, and those from whom we license technology and intellectual property.

Although we believe that our products and services do not infringe upon the intellectual property rights of third parties, we cannot assure you that third parties will not assert infringement or misappropriation claims against us with respect to current or future products or services, or that any such assertions will not require us to enter into royalty arrangements or result in costly litigation, or result in us being unable to use certain intellectual property. We cannot assure you that we are not infringing or otherwise violating any third party intellectual property rights. Infringement assertions from third parties may involve patent holding companies or other patent owners who have no relevant product revenues, and therefore our own issued and pending patents may provide little or no deterrence to these patent owners in bringing intellectual property rights claims against us.

Any intellectual property infringement or misappropriation claim or assertion against us, our customers or partners, and those from whom we license technology and intellectual property could have a material adverse effect on our business, financial condition, reputation and competitive position regardless of the validity or outcome. If we are forced to defend against any infringement or misappropriation claims, whether they are with or without merit, are settled out of court, or are determined in our favor, we may be required to expend significant time and financial resources on the defense of such claims. Furthermore, an adverse outcome of a dispute may require us to pay damages, potentially including treble damages and attorneys' fees, if we are found to have willfully infringed on a party's intellectual property; cease making, licensing or using our products or services that are alleged to infringe or misappropriate the intellectual property of others; expend additional development resources to redesign our products or services; enter into potentially unfavorable royalty or license agreements in order to obtain the right to use necessary technologies or works; and to indemnify our partners, customers, and other third parties. Royalty or licensing agreements, if required or desirable, may be unavailable on terms acceptable to us, or at all, and may require significant royalty payments and other expenditures. Any of these events could seriously harm our business, results of operations and financial condition. In addition, any lawsuits regarding intellectual property rights, regardless of their success, could be costly to resolve and divert the time and attention of our management and technical personnel.

Although we apply measures to protect our intellectual property rights and our source code, there can be no assurance that the measures that we employ to do so will be successful.

In accordance with industry practice, we rely on a combination of contractual provisions and intellectual property law to protect our proprietary technology. We believe that due to the dynamic nature of the computer and software industries, copyright protection is less significant than factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services. We seek to protect the source code of our products as trade secret information and as unpublished copyright works. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use our products and contain terms and conditions prohibiting the unauthorized reproduction or transfer of our products. In addition, while we attempt to protect trade secrets and other proprietary information through non-disclosure agreements with employees, consultants and distributors, not all of our employees have signed invention assignment agreements. Although we intend to protect our rights vigorously, there can be no assurance that these measures will be successful. Our failure to protect our rights, or the improper use of our products by others without licensing them from us could have a material adverse effect on our results of operations and financial condition.

We and our customers rely on technology and intellectual property of third parties, the loss of which could limit the functionality of our products and disrupt our business.

We use technology and intellectual property licensed from unaffiliated third parties in certain of our products, and we may license additional third-party technology and intellectual property in the future. Any errors or defects in this third-party technology and intellectual property could result in errors that could harm our brand and business. In addition, licensed technology and intellectual property may not continue to be available on commercially reasonable terms, or at all. The loss of the right to license and distribute this third party technology could limit the functionality of our products and might require us to redesign our products. Further, although we believe that there are currently adequate replacements for the third-party technology and intellectual property we presently use and distribute, the loss of our right to use any of this technology and intellectual property could result in delays in producing or delivering affected products until equivalent technology or intellectual property is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any technology and intellectual property we license from others or functional equivalents of this software were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology and intellectual property available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business and impact our results of operations.

We could be required to provide the source code of our products to our customers.

Some of our customers have the right to require the source code of our products to be deposited into a source code escrow. Under certain circumstances, our source code could be released to our customers. The conditions triggering the release of our source code vary by customer. A release of our source code would give our customers access to our trade secrets and other proprietary and confidential information which could harm our business, results of operations and financial condition. A few of our customers have the right to use the source code of some of our products based on the license agreements signed with such clients (mostly with respect to older versions of our solutions), although such use is limited for specific matters and cases, these clients are exposed to some of our trade secrets and other proprietary and confidential information which could harm us.

Some of our services and technologies may use “open source” software, which may restrict how we use or distribute our services or require that we release the source code of certain products subject to those licenses.

Some of our services and technologies may incorporate software licensed under so-called “open source” licenses, including, but not limited to, the GNU General Public License and the GNU Lesser General Public License. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. Additionally, open source licenses typically require that source code subject to the license be made available to the public and that any modifications or derivative works to open source software continue to be licensed under open source licenses. These open source licenses typically mandate that proprietary software, when combined in specific ways with open source software, become subject to the open source license. If we combine our proprietary software with open source software, we could be required to release the source code of our proprietary software.

We take steps to ensure that our proprietary software is not combined with, and does not incorporate, open source software in ways that would require our proprietary software to be subject to an open source license. However, few courts have interpreted open source licenses, and the manner in which these licenses may be interpreted and enforced is therefore subject to some uncertainty. Additionally, we rely on multiple software programmers to design our proprietary technologies, and although we take steps to prevent our programmers from including open source software in the technologies and software code that they design, write and modify, we do not exercise complete control over the development efforts of our programmers and we cannot be certain that our programmers have not incorporated open source software into our proprietary products and technologies or that they will not do so in the future. In the event that portions of our proprietary technology are determined to be subject to an open source license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our technologies, or otherwise be limited in the licensing of our technologies, each of which could reduce or eliminate the value of our services and technologies and materially and adversely affect our business, results of operations and prospects.

Risks Relating to Our International Operations

Our international operations expose us to risks associated with fluctuations in foreign currency exchange rates that have been adversely affecting, and could continue to adversely affect, our business.

Many of our subsidiaries derive revenues from international operations that are conducted in local currencies. Those operations are conducted in currencies that include the U.S. dollar, British pound sterling, or GBP, Euro, NIS, Danish Krone, or DKK, and Swedish Krona, or SEK.

In some territories, like in Israel, India, and Poland, in some of our operations, our cost of operations in local currency is and may continue to be in the future higher than the revenues derived from such operations. In other territories, such as in the United Kingdom and Europe, in some of our operations, revenues are higher and may continue to be higher in the future than our cost of operations in local currency. Because exchange rates between the NIS, GBP, Euro, Indian Rupee, or INR, and the Polish Zloty, or PLN, against the US dollar fluctuate continuously, exchange rate fluctuations and especially larger periodic devaluations could negatively affect our revenue and profitability. In 2023, the GBP and Euro appreciated relative to the U.S. dollar by 1% and 3% (based on the average exchange rates over the course of 2023 as compared to 2022), respectively, thereby increasing the U.S. dollar value of the revenues that we generated in those other currencies. However, in 2022, those European currencies depreciated relative to the U.S. dollar by 14% and 13%, respectively, which had an adverse impact on our revenues and results of operations. Furthermore, in 2023 and in 2022, the NIS depreciated relative to the U.S. dollar by 9.7% (based on the average exchange rates over the course of 2023 as compared to 2022 and 2022 as compared to 2021, respectively), thereby decreasing the U.S. dollar value of our revenues thereby having a negative impact on our revenues and on our results of operations. However, in 2021, the NIS appreciated relative to the U.S. dollar by 6% which had positive impact on our revenues and our results of operations. Any continuation of that trend in future periods would have a similar adverse impact.

In certain locations, we engage in currency-hedging transactions intended to reduce the effect of fluctuations in foreign currency exchange rates on our financial position and results of operations. However, there can be no assurance that any such hedging transactions will materially reduce the effect of fluctuation in foreign currency exchange rates on such results. In addition, if for any reason exchange or price controls or other restrictions on the conversion of foreign currencies were imposed, our financial position and results of operations could be adversely affected. For additional information relating to the exchange rates between different relevant currencies, see “Item 5. Operating and Financial Review and Prospects— Overview— Our Functional and Reporting Currency.”

Our international sales and operations subject us to additional risks that can adversely affect our business, results of operations and financial condition.

We are continuing to expand our international operations as part of our growth strategy. In fiscal years 2023 and 2022, approximately 39% and 37%, respectively, of our revenues were derived from outside of Israel. Our current international operations and our plans to further expand our international operations subject us to a variety of risks, including:

- Increased exposure to fluctuations in foreign currency exchange rates.
- Increased exposure to global macroeconomic headwinds being caused by inflation and rising interest rates.
- Complexity in our tax planning, and increased exposure to changes in tax regulations in various jurisdictions in which we operate, which could adversely affect our operating results and hinder our ability to conduct effective tax planning.
- Increased management, travel, infrastructure and legal compliance costs associated with having multiple international operations.
- Longer payment cycles and difficulties in enforcing contracts and collecting accounts receivable.
- The need to localize our products and licensing programs for international customers.
- Lack of familiarity with and unexpected changes in foreign regulatory requirements.
- The burden of complying with a wide variety of foreign laws and legal standards.
- Compliance with the U.S. Foreign Corrupt Practices Act of 1977, as amended, or FCPA, particularly in emerging market countries.
- Import and export license requirements, tariffs, taxes and other trade barriers.
- Increased financial accounting and reporting burdens and complexities.
- Weaker protection of intellectual property rights in some countries.
- Multiple and possibly overlapping tax regimes.
- Political, social and economic instability abroad, terrorist attacks and general security concerns.

As we continue to expand our business globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international operations. Any of these risks could harm our international operations and reduce our international sales, adversely affecting our business, results of operations, financial condition and growth prospects.

International operations in the insurance industry, in which a significant portion of our business is concentrated, are accompanied by additional costs related to adaptation to regulations in specific territories.

As we seek to expand the marketing and offering of our products into new territories, because insurance regulations vary by legal jurisdiction, the investment required to adapt our solutions to the legal and language requirements of such territories may prevent or delay us from effectively expanding into such territories. Such adaptation process requires the retention of new, additional skilled personnel with knowledge of the particular market and applicable regulatory regime. Such skilled personnel may not be available at a reasonable cost relative to the additional revenues that we expect to recognize in those territories or may not be available at all. However, since insurance carriers are regularly required to adopt their systems and software to comply with the changing regulations, this provides an additional revenue source for Sapiens by providing related services for compliance.

Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.

As a multinational corporation, we are subject to income taxes, withholding taxes and indirect taxes in numerous jurisdictions worldwide. Significant judgment and management attention and resources are required in evaluating our tax positions and our worldwide provision for taxes. In the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting, and other laws, regulations, principles and interpretations. This may include recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, changes in foreign currency exchange rates, or changes in the valuation of our deferred tax assets and liabilities.

We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. If we experience unfavorable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made. Additionally, we are subject to transfer pricing rules and regulations, including those relating to the flow of funds between us and our affiliates, which are designed to ensure that appropriate levels of income are reported in each jurisdiction in which we operate.

Risks Related to an Investment in Our Traded Securities and to Our Consolidated Holdings

There is limited trading volume for our ADSs and ordinary shares, which reduces liquidity for our shareholders, and may furthermore cause the stock price to be volatile, all of which may lead to losses by investors.

There has historically been limited trading volume for our ADSs and ordinary shares, respectively, both on the Nasdaq Global Select Market and the TASE, as well as for our publicly traded investees Matrix (whose shares are traded on the TASE) and Sapiens and Magic Software (whose shares are both traded on the Nasdaq Global Select Market and the TASE), such that trading has still not reached the level that enables shareholders to freely sell their shares in substantial quantities on an ongoing basis and thereby readily achieve liquidity for their investment. As a further result of the limited volume, our or our publicly traded investees ordinary or common shares have experienced significant market price volatility in the past and may experience significant market price and volume fluctuations in the future, in response to factors such as announcements of developments related to our investees businesses, announcements by competitors of our investees, quarterly fluctuations in our financial results and general conditions in the industry in which we through our investees compete.

We have a history of quarterly fluctuations in our results of operations , which make it difficult for investors to make reliable period-to-period comparisons, may also contribute to volatility in the market price of our ordinary shares and American Depositary Shares.

We have experienced, and in the future may continue to experience, significant fluctuations in our quarterly results of operations. Factors that may contribute to fluctuations in our quarterly results of operations include:

- general global economic conditions;
- acquisitions and dispositions;
- the size, time and recognition of revenue from significant contracts;
- timing of product releases or enhancements;
- timing of contracts;
- timing of completion of specified milestones and delays in implementation;
- changes in the proportion of service and license revenues;
- price and product competition;
- market acceptance of our new products, applications and services;
- increases in selling and marketing expenses, as well as other operating expenses;
- currency exchange rate fluctuations; and
- consolidation of our customers.

A substantial portion of our expenses, including most product development and selling and marketing expenses must be incurred in advance of when revenue is generated. If our projected revenue does not meet our expectations, we are likely to experience an even larger shortfall in our operating profit relative to our expectations. The gross margins of our individual subsidiaries vary both among themselves and over time. As a result, changes in the revenue mix from these subsidiaries may affect our quarterly operating results. In addition, we may derive a significant portion of our net income from the sale of our investments or the sale of our proprietary software technology. These events do not occur on a regular basis and their timing is difficult to predict. As a result, we believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful and that you should not rely on them as an indication for future performance. Also, it is possible that our quarterly and annual results of operations may be below the expectations of public market analysts and investors. If this happens, the prices of our ordinary shares and ADSs will likely decrease.

The market prices of our ordinary shares and ADSs may be adversely affected if the market prices of our publicly traded investees decrease.

A significant portion of our assets is comprised of equity securities of directly held publicly traded companies. Our publicly traded investees are currently Matrix, Sapiens and Magic Software. The share prices of these publicly traded companies have been extremely volatile over the years and have been subject to fluctuations due to market conditions and other factors which are often unrelated to operating results and which are beyond our control. Fluctuations in the market price and valuations of our holdings in these companies may affect the market's valuation of the price of our ordinary shares and ADSs and may also thereby impact our results of operations. If the value of our assets decreases significantly as a result of a decrease in the value of our interest in our publicly traded investees, our business, operating results and financial condition may be materially and adversely affected and the market price of our ordinary shares and ADSs may also fall as a result.

Our securities are traded on more than one market and this may result in price variations.

Formula's ordinary shares are traded on the TASE and its ADSs are traded on the Nasdaq Global Select Market. Trading in those ordinary shares and ADSs on those markets takes place in different currencies (dollars on the Nasdaq Global Select Market and NIS on the TASE), and at different times (resulting from different time zones, different weekly trading days and different public holidays in the United States and Israel). The trading prices of our ordinary shares and ADSs on these two markets may differ due to these and other factors (see the risk factor titled "The market price of our ordinary shares and ADSs may be volatile and you may not be able to resell your shares at or above the price you paid, or at all" above for data related to the differences in trading prices on Nasdaq as compared to on the TASE). On the other hand, any decrease in the trading price of our ordinary shares or ADSs, as applicable, on one of these markets could likely affect—and cause a decrease in—the trading price on the other market.

Our largest shareholder, Asseco Poland S.A., can significantly influence the outcome of matters that require shareholder approval.

Asseco Poland S.A., or Asseco, our largest shareholder, owned as of May 1, 2024 approximately 25.82% of our outstanding share capital and therefore has effective voting power over in excess of one-quarter of our outstanding ordinary shares (which excludes shares that we have repurchased that lack voting rights and shares subject to restrictions that are voted in proportion to the votes of our other shares). Therefore, Asseco can significantly influence the outcome of those matters requiring shareholder approval, including the election of directors and approval of significant corporate transactions. This voting power may have the effect of delaying or preventing a change in control which may otherwise be favorable to our minority shareholders. In addition, potential conflicts of interest may arise in the event that we or any of our investees enters into any agreements or transactions with affiliates of Asseco. Although Israeli law imposes certain procedures (including the requirement to obtain shareholder approval, which in certain cases includes a "majority of the minority") for approval of certain related party transactions, we cannot assure you that these procedures will eliminate the possible detrimental effects of these conflicts of interest. If certain transactions are not approved in accordance with required procedures under applicable Israeli law, these transactions may be void or voidable.

If we are unable to maintain effective internal control over financial reporting in accordance with Sections 302 and 404(a) of the Sarbanes-Oxley Act of 2002, the reliability of our financial statements may be questioned and our share price may suffer.

We are subject to a range of requirements relating to internal controls over financial reporting. Despite our internal control measures, we may still be subject to financial reporting errors or even fraud, which may not be detected. A control system, which is increasingly based on computerized processes, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that its objectives are met. In addition, the benefit of each control must be considered relative to its cost, and the design of a control system must reflect such reasonable resource constraints. Implementation of changes or updates to our control systems, including implementation of our investees enterprise resource planning (ERP) systems at additional sites, may encounter unexpected difficulties. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Further, controls can be circumvented by individual acts, by collusion of two or more persons or by management override of the controls. Over time, a control may be inadequate because of changes in conditions or the degree of compliance with applicable policies or procedures may deteriorate. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities, and could adversely affect our operating results, investor confidence in our reported financial information and the market price of our ordinary shares and ADSs.

Further to that risk, as part of its assessment of the adequacy of internal controls over financial reporting for the year ended December 31, 2023, the management of one of our subsidiaries, Magic Software, identified a material weakness in its internal control over financial reporting, whereas, Magic Software management team determined that Magic Software did not retain complete documentation as evidence for performing certain (i) business processes controls (including automated and IT-dependent manual) (ii) sufficiently precise management review controls and (iii) evidence to demonstrate completeness and accuracy of information prepared by entity ("IPE"). As a result, Magic Software's management team could not monitor and oversee the completion of its assessment of the design and operating effectiveness of internal control over its financial reporting in a timely manner. These inadequacies led to the conclusion that Magic Software's disclosure controls and procedures were not effective, and that there was a material weakness in Magic Software's internal control over financial reporting, as of December 31, 2023. In light of that conclusion, Magic Software's management has expressed its commitment to the continued remediation process of the foregoing material weakness, as well as the continued improvement of Magic Software's internal control over financial reporting. The subject inadequacies did not rise to a sufficiently material level to cause our consolidated internal controls over financial reporting to be deemed deficient, given Magic Software's size relative to that of the consolidated Group. Nevertheless, if management of Magic Software or any of our other subsidiaries or investees were to discover additional deficiencies in internal controls that would rise, individually or in the aggregate, above the threshold of materiality for our consolidated Group, that could cause (i) a loss in the reliability of, or (ii) the potential required restatement of, our financial statements, or (iii) investigation or sanctions by regulatory authorities, among other potential adverse consequences, and could cause a decrease in the trading price of our ordinary shares and ADSs.

The enactment of legislation implementing changes in taxation of international business activities, the adoption of other corporate tax reform policies, or changes in tax legislation or policies could impact our future financial position and results of operations.

Corporate tax reform, base-erosion efforts and tax transparency continue to be high priorities in many tax jurisdictions where we have business operations. As a result, policies regarding corporate income and other taxes in numerous jurisdictions are under heightened scrutiny and tax reform legislation is being proposed or enacted in a number of jurisdictions.

In 2015, the Organization for Economic Co-operation and Development, or the OECD, released various reports under its Base Erosion and Profit Shifting, or BEPS, action plan to reform international tax systems and prevent tax avoidance and aggressive tax planning. These actions aim to standardize and modernize global corporate tax policy, including cross-border taxes, transfer-pricing documentation rules and nexus-based tax incentive practices which in part are focused on challenges arising from the digitalization of the economy. The reports have a very broad scope including, but not limited to, neutralizing the effects of hybrid mismatch arrangements, limiting base erosion involving interest deductions and other financial payments, countering harmful tax practices, preventing the granting of treaty benefits in inappropriate circumstances and imposing mandatory disclosure rules. It is the responsibility of OECD members to consider how the BEPS recommendations should be reflected in their national legislation. Many countries are beginning to implement legislation and other guidance to align their international tax rules with the OECD's BEPS recommendations, for example, by signing up to the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS, or the MLI, which currently has been signed by over 85 jurisdictions, including Israel, which signed the MLI on September 13, 2018. The MLI implements some of the measures that the BEPS initiative proposes to be transposed into existing treaties of participating states. Such measures include the inclusion in tax treaties of one, or both, of a "limitation-on-benefit", or LOB, rule and a "principle purposes test", or PPT, rule. The application of the LOB rule or the PPT rule could deny the availability of tax treaty benefits (such as a reduced rate of withholding tax) under tax treaties. There are likely to be significant changes in the tax legislation of various OECD jurisdictions during the period of implementation of BEPS. Such legislative initiatives may materially and adversely affect our plans to expand internationally and may negatively impact our financial condition, tax liability, results of operations and could increase our administrative efforts.

In addition, the OECD has published proposals covering a number of issues, including country-by-country reporting, permanent establishment rules, transfer pricing rules, tax treaties and taxation of the digital economy. Future tax reform resulting from this development may result in changes to long-standing tax principles, which could adversely affect our effective tax rate or result in higher cash tax liabilities, to the extent those changes are deemed applicable to us.

Risks Related to Operations in Israel and Other Specific Geographic Locations

Political and economic conditions in Israel, including the ongoing war and hostilities between Israel and Hamas Terror Organization and Israel and the Hezbollah Terror Organization in Lebanon, may limit our ability to sell our products. This could have a material adverse effect on our operations and business condition, harm our results of operations and adversely affect our share price.

Because a material part of our and our subsidiaries' operations are conducted in Israel and certain members of our board of directors and management as well as many of our subsidiaries' employees and consultants', including employees of our service providers, are located in Israel, our business and operations, as well as those of our subsidiaries, are directly affected by economic, political, geopolitical and military conditions in Israel. Since the establishment of the State of Israel in 1948, a number of armed conflicts have occurred between Israel and its neighboring countries and terrorist organizations active in the region. These conflicts have involved missile strikes, hostile infiltrations and terrorism against civilian targets in various parts of Israel, which have negatively affected business conditions in Israel.

In October 2023, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets 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. Hamas also launched extensive rocket attacks on Israeli population and industrial centers located along Israel's border with the Gaza Strip and in other areas within the State of Israel. These attacks resulted in extensive deaths, injuries and kidnapping of civilians and soldiers. Following the attack, Israel's security cabinet declared war against Hamas and a military campaign against these terrorist organizations commenced in parallel to their continued rocket and terror attacks. In addition, since the commencement of these events, there have been continued hostilities along Israel's northern border with Lebanon (with the Hezbollah terror organization) and southern border (with the Houthi movement in Yemen, as described below). Furthermore, and more recently Iran also initiated missiles and rockets attack against Israeli military sites in southern Israel. As such, relations between Israel and Iran continue to be seriously strained, especially with regard to Iran's nuclear program and Iran has targeted cyber-attacks against Israeli entities. It is possible that hostilities with Hezbollah in Lebanon will escalate, and that other terrorist organizations, including Palestinian military organizations in the West Bank as well as other hostile countries, such as Iran, will join the hostilities. Such clashes may escalate in the future into a greater regional conflict. As of the date of the report, and close to the date of publication of the report, approximately 600 and approximately 350 (respectively) of the Formula Group's employees are recruited into the reserves, and this is after the peak of the company's employees recruited into the reserves reached over 900.

The intensity and duration of Israel's current war against Hamas is difficult to predict, as are such war's economic implications on the Company's business and operations, as well as those of our subsidiaries, and on Israel's economy in general. These events may be intertwined with wider macroeconomic indications of a deterioration of Israel's economic standing that may involve a downgrade in Israel's credit rating by rating agencies (such as the recent downgrade by Moody's of its credit rating of Israel from A1 to A2, as well as the downgrade of its outlook rating from "stable" to "negative") and S&P Global Ratings downgraded its rating by one notch from AA- to A+ with a negative outlook, which altogether may have a material adverse effect on our and our subsidiaries future results of operations and on our collective ability to effectively conduct our operations.

In connection with the Israeli security cabinet's declaration of war against Hamas and possible hostilities with other organizations, several hundred thousand Israeli military reservists were drafted to perform immediate military service. Although many of such military reservists have since been released, they may be called up for additional reserve duty, depending on developments in the war in Gaza and along Israel's other borders. Certain of our employees and consultants in Israel, as well as those of our subsidiaries', in addition to employees of our service providers located in Israel, have been called, and additional employees may be called, for service in the current or future wars or other armed conflicts with Hamas as well as the other pending or future armed conflicts in which Israel is or may become engaged, and such persons may be absent for an extended period of time. As a result, our operations may be disrupted by such absences, which disruption may materially and adversely affect our business and results of operations. Additionally, the absence of employees of our Israeli suppliers and contract manufacturers due to their military service in the current or future wars or other armed conflicts may disrupt their operations, which in turn may materially and adversely affect our ability to deliver or provide products and services to customers.

The hostilities with Hamas, Hezbollah and other organizations and countries have included and may include terror, missile and drone attacks. In the event that our facilities are damaged as a result of hostile actions, or hostilities otherwise disrupt our ongoing operations, our ability to deliver or provide products and services in a timely manner to meet our contractual obligations towards customers and vendors could be materially and adversely affected. Our commercial insurance does not cover losses that may occur as a result of events associated with war and terrorism. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that such government coverage will be maintained or that it will sufficiently cover our potential damages. Any losses or damages incurred by us could have a material adverse effect on our business.

In addition, some countries around the world restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continue or increase. These restrictions may limit materially our ability to obtain raw materials from these countries or sell our products and provide our services to companies and customers in these countries. In addition, there have been increased efforts by countries, activists and organizations to cause companies and consumers to boycott Israeli goods and services. In addition, in January 2024 the International Court of Justice, or ICJ, issued an interim ruling in a case filed by South Africa against Israel in December 2023, making allegations of genocide amid and in connection with the war in Gaza, and ordered Israel, among other things, to take measures to prevent genocidal acts, prevent and punish incitement to genocide, and take steps to provide basic services and humanitarian aid to civilians in Gaza. There are concerns that companies and businesses will terminate, and may have already terminated, certain commercial relationships with Israeli companies following the ICJ decision. The foregoing efforts by countries, activists and organizations, particularly if they become more widespread, as well as the ICJ rulings and future rulings and orders of other tribunals against Israel (if handed), may materially and adversely impact our ability to sell and provide our products and services outside of Israel.

Furthermore, following Hamas' attack on Israel and Israel's security cabinet declaration of war against Hamas, the Houthi movement, which controls parts of Yemen, launched a number of attacks on marine vessels traversing the Red Sea, which marine vessels were thought to either be in route towards Israel or to be partly owned by Israeli businessmen. The Red Sea is a vital maritime route for international trade traveling to or from Israel. As a result of such disruptions, we have experienced in the past and may experience in the future delays in supplier deliveries (including electronic components and other products upon which we rely), extended lead times, and increased cost of freight, increased insurance costs, purchased materials and manufacturing labor costs. The risk of ongoing supply disruptions may further result in delayed deliveries of our products and may also have adverse impact on economic conditions in Israel.

Finally, political conditions within Israel may affect our operations. Israel has held five general elections between 2019 and 2022, and prior to October 2023, the Israeli government pursued extensive changes to Israel's judicial system, which sparked extensive political debate and unrest. In response to such initiative, many individuals, organizations and institutions, both within and outside of Israel, voiced concerns that the proposed changes may negatively impact the business environment in Israel including due to reluctance of foreign investors to invest or transact business in Israel, as well as to increased currency fluctuations, downgrades in credit rating, increased interest rates, increased volatility in security markets and other changes in macroeconomic conditions. To date, these initiatives have been substantially put on hold. If such changes to Israel's judicial system are again pursued by the government and approved by the parliament, this may have an adverse effect on our business, our results of operations and our ability to raise additional funds, if deemed necessary by our management and board of directors.

As some of our revenues are derived from the Israeli government sector, a reduction of government spending in Israel on IT services may reduce our revenues and profitability; and any delay in the annual budget approval process may negatively impact our cash flows.

Our Matrix and Magic Software subsidiaries and our TSG affiliate perform work for a wide range of Israeli governmental agencies and related subcontractors. Any reduction or elimination for political or economic reasons of total Israeli government spending (that could happen for example as a result of the “Iron Sword War” or political instability, or cuts in Israel’s future state budget, or a pandemic, like it previously happened with COVID-19) may reduce our revenues and profitability. In addition, the Government of Israel has experienced significant delays in the approval of its annual budget in recent years. Such delays in the future could negatively affect our cash flows by delaying the receipt of payments from the government of Israel for services performed.

Our business may be materially affected by changes to fiscal and tax policies. Potentially negative or unexpected tax consequences of these policies, or the uncertainty surrounding their potential effects, could adversely affect our results of operations and share price.

As a multinational Group, we are subject to income taxes, withholding taxes and indirect taxes in numerous jurisdictions worldwide. Significant judgment and management attention and resources are required in evaluating our tax positions and our worldwide provision for taxes. In the ordinary course of business, there are many activities and transactions for which the ultimate tax determination is uncertain. In addition, our tax obligations and effective tax rates could be adversely affected by changes in the relevant tax, accounting, and other laws, regulations, principles and interpretations. This may include recognizing tax losses or lower than anticipated earnings in jurisdictions where we have lower statutory rates and higher than anticipated earnings in jurisdictions where we have higher statutory rates, changes in foreign currency exchange rates, or changes in the valuation of our deferred tax assets and liabilities.

We may be audited in various jurisdictions, and such jurisdictions may assess additional taxes against us. If we experience unfavorable results from one or more such tax audits, there could be an adverse effect on our tax rate and therefore on our net income. Although we believe our tax estimates are reasonable, the final determination of any tax audits or litigation could be materially different from our historical tax provisions and accruals, which could have a material adverse effect on our operating results or cash flows in the period or periods for which a determination is made. Additionally, we and our subsidiaries are subject to transfer pricing rules and regulations, including those relating to the flow of funds between each of us and our respective affiliates, which are designed to ensure that appropriate levels of income are reported in each jurisdiction in which we operate.

The tax benefits that will be available to certain of our Israeli subsidiaries and our Israeli affiliate will require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.

Some of our Israeli subsidiaries derive and expect to continue to derive significant benefits from various programs, including Israeli tax benefits relating to our “Preferred Technological Enterprise”, or PTE, and our “Special Preferred Technological Enterprise,” or SPTE, programs. To be eligible for tax benefits as a PTE or SPTE, these Israeli subsidiaries must continue to meet certain conditions including, with respect to Sapiens, consolidated group revenue at the level of Asseco (its and our controlling shareholder) of at least NIS 10 billion. If they do not meet the conditions stipulated in the Israeli Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law and the regulations promulgated thereunder, as amended, for the PTE, any of the associated tax benefits may be cancelled and they would be required to repay the amount of such benefits, in whole or in part, including interest and consumer price index, or CPI, linkage (or other monetary penalties). Further, in the future these tax benefits may be reduced or discontinued. While we believe that certain of our Israeli subsidiaries have met and continue to meet the conditions that entitle them to previously-obtained Israeli tax benefits, there can be no assurance that the Israeli Tax Authority will agree (for example, with respect to Sapiens and Magic Software, in case the overall revenue at the Asseco group level is lower than NIS 10 billion, or if Asseco no longer controls Sapiens).

The Israeli government grants that Sapiens, one of our subsidiaries, has received require it to meet several conditions and restrict its ability to manufacture products and transfer know-how developed using such grants outside of Israel and require it to satisfy specified conditions.

One of our Israeli subsidiaries (an Israeli subsidiary of Sapiens) received grants in the past from the government of Israel through the Israeli National Authority for Technological Innovation, or the Innovation Authority (formerly operating as Office of the Chief Scientist of the Ministry of Economy of the State of Israel, or the OCS), for the financing of a portion of its research and development expenditures in Israel with respect to Sapiens legacy technology. In consideration for receiving grants from the Innovation Authority, that subsidiary is obligated to pay the Innovation Authority royalties from the revenues generated from the sale of products (and related services) developed (in whole or in part) using the Innovation Authority funds, in an amount that is up to 100% to 150% of the aggregate amount of the total grants that it received from the Innovation Authority, plus annual interest for grants received after January 1, 1999. The subsidiary must fully and originally own any intellectual property developed using the Innovation Authority grants and any right derived therefrom unless transfer thereof is approved in accordance with the provisions of the Israeli Encouragement of Research, Development and Technological Innovation Law, 5744-1984, or the Innovation Law (formerly known as the Encouragement of Industrial Research and Development Law, 5744-1984, or the Research Law), and related regulations.

When a company develops know-how, technology or products using grants provided by the Innovation Authority, the terms of these grants and the Innovation Law restrict the transfer of such know-how, and the transfer of manufacturing or manufacturing rights of such products, technologies or know-how outside of Israel. Even after the repayment of such grants in full, our subsidiary will remain subject to the restrictions set forth under the Innovation Law, including:

- *Transfer of know-how outside of Israel.* Any transfer of the know-how that was developed with the funding of the Innovation Authority, outside of Israel, requires prior approval of the Innovation Authority, and the payment of a redemption fee, or, in the case of a license to outside of Israel, a licensing fee.
- *Local manufacturing obligation.* The terms of the grants under the Innovation Law require that the manufacturing of products resulting from Innovation Authority-funded programs be carried out in Israel, unless a prior written approval of the Innovation Authority is obtained (except for a transfer of up to 10% of the production rights, for which a notification to the Innovation Authority is sufficient).
- *Certain reporting obligations.* Sapiens, as any recipient of a grant or a benefit under the Innovation Law, is required to file reports on the progress of activities for which the grant was provided as well as on its revenues from know-how and products funded by the Innovation Authority. In addition, our subsidiary is required to notify the Innovation Authority of certain events detailed in the Innovation Law.

Therefore, if aspects of our subsidiary's technologies are deemed to have been developed with Innovation Authority funding, the discretionary approval of an Innovation Authority committee would be required for any transfer to third parties outside of Israel of know-how or manufacturing or manufacturing rights related to those aspects of such technologies. Our subsidiary may not receive those approvals. Furthermore, the Innovation Authority may impose certain conditions on any arrangement under which it permits our subsidiary to transfer technology or development out of Israel.

The transfer of Innovation Authority-supported technology or know-how outside of Israel may involve the payment of significant amounts, depending upon the value of the transferred technology or know-how, the amount of Innovation Authority support, the time of completion of the Innovation Authority-supported research project and other factors. Furthermore, the consideration available to shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with the Innovation Authority's funding (such as a merger or similar transaction) may be reduced by any amounts that are required to be paid to the Innovation Authority.

As we continue to expand our business in emerging markets, such as India, we face increasing challenges that could adversely impact our results of operations, reputation and business.

Approximately forty-six percent (47%) of Sapiens' employees and approximately 5% of Magic Software employees are currently located in India. Our significant presence in India, in particular Sapiens' Research & Development personnel and its personnel for the delivery of its professional services, poses a number of challenges. Those challenges are related to more volatile economic conditions, poor protection of intellectual property, inadequate protection against crime (including counterfeiting, corruption and fraud), lack of due process, and inadvertent breaches of local laws or regulations. In addition, local business practices may be inconsistent with international regulatory requirements, such as anti-corruption and anti-bribery laws and regulations (including the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act) to which we are subject. It is possible that some of Sapiens' employees, subcontractors, agents or partners may violate such legal and regulatory requirements, which may expose it to criminal or civil enforcement actions, including penalties and suspension or disqualification from U.S. federal procurement contracting. If Sapiens fails to comply with such legal and regulatory requirements, our business and reputation may be harmed.

Conducting business in India involves unique challenges, including potential political instability; threats of terrorism; the transparency, consistency and effectiveness of business regulation; corruption; the protection of intellectual property; and the availability of sufficient qualified local personnel. Any of these or other challenges associated with operating in India may adversely affect our business or operations. Terrorist activity in India and Pakistan has contributed to tensions between those countries and our operations in India may be adversely affected by future political and other events in the region.

It may be difficult to serve process and enforce judgments against our directors and officers in the United States or in Israel.

We are organized under the laws of the State of Israel. All of our executive officers and directors are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside of the United States. Therefore, it may be difficult to:

- effect service of process within the United States on us or any of our executive officers or directors;
- enforce court judgments obtained in the United States including those predicated upon the civil liability provisions of the United States federal securities laws, against us or against any of our executive officers or directors, in the United States or Israel; and
- bring an original action in an Israeli court against us or against any of our executive officers or directors to enforce liabilities based upon the United States federal securities laws.

Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws reasoning that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses the matters described above. As a result of the difficulty associated with enforcing a judgment against us in Israel, an investor may not be able to collect any damages awarded by either a U.S. or foreign court.

Provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore depress the price of our shares.

The Companies Law regulates mergers and requires that tender offers for acquisitions of shares above specified thresholds be approved via special shareholder approvals. The Companies Law furthermore requires shareholder approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to us or to some of our shareholders. These provisions of Israeli corporate and tax law may have the effect of delaying, preventing or complicating a merger with, or other acquisition of, us. This could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law. Asseco's control of a significant percentage of our outstanding ordinary shares may also discourage potential acquirers from paying a premium to our shareholders pursuant to a change of control transaction. Please see the risk factor above titled "Our largest shareholder, Asseco Poland S.A., can significantly influence the outcome of matters that require shareholder approval."

Your rights and responsibilities as a shareholder are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, amended and restated articles of association, which we sometimes refer to as our articles, and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising the rights thereof and fulfilling the obligations thereof toward the company and other shareholders and to refrain from abusing the power thereof in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes at the general meeting with respect to, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and acquisitions and transactions involving interests of officers, directors or other interested parties which require the shareholders' approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that he or she possesses the power to determine the outcome of a vote at a meeting of our shareholders, or who has, by virtue of the company's articles of association, the power to appoint or prevent the appointment of an office holder in the company, or any other power with respect to the company, has a duty of fairness toward the company. The Companies Law does not establish criteria for determining whether or not a shareholder has acted in good faith.

As a foreign private issuer whose ADSs are listed on the Nasdaq Global Select Market, we may follow certain home country corporate governance practices instead of certain Nasdaq requirements.

As a foreign private issuer whose ADSs are listed on the Nasdaq Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the Listing Rules of the Nasdaq Stock Market including the proxy rules, which impose certain disclosure and procedural requirements for proxy solicitations. Moreover, we are not required to file periodic reports and financial statements with the SEC as frequently or as promptly as domestic U.S. companies with securities registered under the Exchange Act; and are not required to comply with Regulation FD, which imposes certain restrictions on the selective disclosure of material information. In addition, our officers, directors and principal shareholders are exempt from the reporting and “short-swing” profit recovery provisions of Section 16 of the Exchange Act and the rules under the Exchange Act with respect to their purchases and sales of our common shares. Accordingly, you receive less information about our company than you would receive about a domestic U.S. company, and are afforded less protection under the U.S. federal securities laws than you would be afforded in holding securities of a domestic U.S. company.

A foreign private issuer that elects to follow a home country practice instead of such requirements must submit to Nasdaq in advance a written statement from independent counsel in such issuer’s home country certifying that the issuer’s practices are not prohibited by the home country’s laws. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC or on its website, each such requirement that it does not follow and describe the home country practice followed by the issuer in lieu of any such requirement. In keeping with these leniencies, we have elected to follow home country practice with regard to, among other things, composition of our board of directors, director nomination procedure, compensation of officers, quorum at shareholders’ meetings and timing of our annual shareholders’ meetings. We have furthermore elected to follow our home country law, in lieu of those rules of the Nasdaq Stock Market that require that we obtain shareholder approval for certain dilutive events, such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company. Accordingly, our shareholders and ADS holders may not be afforded the same protection as provided under Nasdaq’s corporate governance rules.

Our U.S. shareholders may suffer adverse tax consequences if we are classified as a passive foreign investment company or as a “controlled foreign corporation”.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of the average quarterly value of our assets (which may be measured in part by the market value of our ordinary shares (including shares represented by ADSs), which is subject to change) are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes under the Code. Based on our gross income and gross assets, and the nature of our business, we believe that we were not classified as a PFIC for the taxable year ended December 31, 2023. Because PFIC status is determined annually based on our income, assets and activities for the entire taxable year, it is not possible to determine whether we will be characterized as a PFIC for the taxable year ending December 31, 2024, or for any subsequent year, until we finalize our financial statements for that year. Furthermore, because the value of our gross assets is likely to be determined in large part by reference to our market capitalization, a decline in the value of our ordinary shares may result in our becoming a PFIC. Accordingly, there can be no assurance that we will not be considered a PFIC for any taxable year. Our characterization as a PFIC could result in material adverse tax consequences for you if you are a U.S. investor, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than a capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are U.S. holders, and having interest charges apply to distributions by us and the proceeds of share sales. Certain elections exist that may alleviate some of the adverse consequences of PFIC status and would result in an alternative treatment (such as mark-to-market treatment) of our ordinary shares. Prospective U.S. investors should consult their own tax advisers regarding the potential application of the PFIC rules to them. Prospective U.S. investors should refer to “Item 10.E. Taxation—U.S. Federal Income Tax Considerations” for discussion of additional U.S. income tax considerations applicable to them based on our treatment as a PFIC.

Certain U.S. holders of our ordinary shares (or ADSs) may suffer adverse tax consequences if we or any of our non-U.S. subsidiaries are characterized as a “controlled foreign corporation,” or a CFC, under Section 957(a) of the Code. Certain changes to the CFC constructive ownership rules under Section 958(b) of the Code introduced by the U.S. Tax Act may cause one or more of our non-U.S. subsidiaries to be treated as CFCs, may also impact our CFC status, and may adversely affect holders of our ordinary shares or ADSs that are United States shareholders. Generally, for U.S. shareholders that own 10% or more of the combined vote or combined value of our ordinary shares (including shares represented by ADSs), this may result in adverse U.S. federal income tax consequences and these shareholders may be subject to certain reporting requirements with the U.S. Internal Revenue Service. Any such 10% U.S. shareholder should consult its own tax advisors regarding the U.S. tax consequences of acquiring, owning, or disposing our ordinary shares (including ADSs) and the impact of the U.S. Tax Act, especially the changes to the rules relating to CFCs.

We may have difficulty protecting our interests as a shareholder of Sapiens, which is a Cayman Islands company.

Sapiens corporate affairs are governed by its Memorandum, its Articles, the Companies Act (as revised) of the Cayman Islands, or the “Companies Act”, and the common law of the Cayman Islands. The rights of Sapiens’ shareholders and the fiduciary responsibilities of its directors under the laws of the Cayman Islands are, in some respects, not as clearly established under statutes or judicial precedent as in jurisdictions in the United States. Therefore, we may have more difficulty in protecting our interests than would shareholders of a corporation incorporated in a jurisdiction in the United States, due to the comparatively less developed nature of Cayman Islands law in this area.

The Companies Act permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. Dissenting shareholders have the right to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands court) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

In addition, there are statutory provisions that facilitate the reconstruction and amalgamation of companies, provided that the arrangement is approved by a majority in number of each class of shareholders and creditors with whom the arrangement is to be made, and who must in addition represent three-fourths in value of each such class of shareholders or creditors, as the case may be, that are present and voting either in person or by proxy at a meeting convened for that purpose. The convening of the meeting and subsequently the arrangement must be sanctioned by the Grand Court of the Cayman Islands. A dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved.

When a takeover offer is made and accepted by holders of 90.0% of the affected shares within four months, the offeror may, within a two-month period, notify the holders of the remaining shares that it requires them to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands within one month of the notice, but this is unlikely to succeed unless there is evidence of fraud, bad faith or collusion.

If the arrangement and reconstruction is thus approved, the dissenting shareholder would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders of a corporation incorporated in a jurisdiction in the United States, providing rights to receive payment in cash for the judicially determined value of the shares. This may make it more difficult for you to assess the value of any consideration you may receive in a merger or consolidation or to require that the offeror give you additional consideration if you believe the consideration offered is insufficient.

Shareholders of Cayman Islands exempted companies have no general rights under Cayman Islands law to inspect corporate records and accounts or to obtain copies of lists of shareholders. Sapiens’ directors have discretion under the Company’s Memorandum and Articles to determine whether or not, and under what conditions, its corporate records may be inspected by its shareholders, but are not obliged to make them available to its shareholders (other than annual accounts, which are available for inspection prior to annual general meetings, and each shareholder’s right to view the share register in respect of shares registered in its name). This may make it more difficult for a shareholder to obtain the information needed to establish any facts necessary for a shareholder motion or to solicit proxies from other shareholders in connection with a proxy contest.

Subject to limited exceptions, under Cayman Islands law, a minority shareholder may not bring a derivative action against the board of directors.

Copies of Sapiens’ Memorandum and Articles, which serve as exhibits to its 2021 annual report, were annexed as Appendix A to the proxy statement for Sapiens’ 2017 annual general meeting of shareholders, which was appended as Exhibit 99.1 to Sapiens’ Report of Foreign Private Issuer on Form 6-K furnished to the SEC on October 26, 2017. A table comparing certain Curacao law provisions to Cayman Islands law provisions was annexed as Appendix B to that same proxy statement.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Both our legal name and our commercial name are Formula Systems (1985) Ltd. We were incorporated under the laws of the State of Israel on April 2, 1985, and are subject to the Israeli Companies Law, 5759-1999. We maintain our principal executive offices at 1 Yahadut Canada Street, Or Yehuda, 6037501, Israel and our telephone number is +972-3-5389389. Our agent in the United States is Corporation Service Company and its address is 2711 Centerville Road, Suite 400, Wilmington, DE 19808. Our Internet address is www.formulasystems.com. The information contained on that site is not a part of this annual report and is not incorporated by reference herein. The SEC maintains an Internet site, <http://www.sec.gov>, which contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC. The information on that website is not part of this annual report and is not incorporated by reference herein. Except as described elsewhere in this annual report, we have not had any important events in the development of our business since January 1, 2023.

Capital Expenditures and Divestitures

Since our inception, we have acquired effective controlling interests, and have invested, in companies that are engaged in the IT solutions and services business. We, together with our investees, are known as the Formula Systems Group.

We have adopted a strategy of seeking to create positive economic impact and long-term value for our shareholders and the companies we invest in. We believe that this strategy provides us with capital to support the growth of our interest in our remaining subsidiaries, as well as provide us the opportunity to pursue new acquisitions of, and investments in, other businesses, particularly businesses offering products, technologies and services that are complementary to ours and are suitable for integration into our business, thereby increasing value for our shareholders (and ADS holders). We expect to continue to develop and enhance the products, services and solutions of our investees, and to continue to pursue additional acquisitions of, or investments in, companies that provide IT services and proprietary software solutions.

Our principal investment and divestiture activities since the start of our 2021 fiscal year are described below. For additional information concerning our related financing activities since the start of our 2021 fiscal year, see “Item 5. Operating and Financial Review and Prospects— B. Liquidity and Capital Resources— Sources of Financing.”

Investments by Formula in Existing Subsidiaries:

Changes in our percentage ownership of Sapiens. As of January 1, 2021, our percentage interest in Sapiens was approximately 43.9%. During the last three years, mainly due to exercises of options by employees of Sapiens, our direct interest in Sapiens’ outstanding common shares was diluted to 43.6% as of December 31, 2021. As a result of our acquisition of 285,672 of Sapiens common shares on February 2022, March 2022 and August 2022 for a total consideration of \$7.0 million (there were no such purchases in 2021 or 2023) our percentage ownership of Sapiens rose to 44.1% as of December 31, 2022, which thereafter diluted during 2023 to 43.6% as of December 31, 2023 resulting of exercises of options by employees of Sapiens. The source of funds for our purchase of Sapiens common shares in 2022 was our working capital. Our interest in Sapiens’ common shares as of March 31, 2024, stands at 43.6%.

Changes in our percentage ownership of Magic Software. As of January 1, 2021, our percentage interest in Magic Software was 45.5%. Pursuant to our acquisition of Magic Software ordinary shares, we invested an aggregate of \$1.1 million in 2021, \$5.8 million in 2022 and \$2.1 million in 2023. Our interest in Magic Software’s ordinary shares as of December 31, 2023, stands at 46.7%. The source of funds for those acquisitions has been our working capital. Our interest in Magic Software’s ordinary shares as of March 31, 2024 remains at 46.7%.

Changes in our percentage ownership of Matrix. As of January 1, 2021, our percentage interest in Matrix was 49.3%. During the last three years, solely due to exercises of options by employees of Matrix, our direct interest in Matrix’s outstanding share capital was diluted to 48.9%, 48.7% and 48.2% as of December 31, 2021, 2022, and 2023, respectively. Our interest in Matrix’s ordinary shares as of March 31, 2024 stands at 48.2%. We invested an aggregate of \$5.0 million in 2020 pursuant to our acquisitions of Matrix shares. There were no such purchases in 2021, 2022, or 2023. The source of such funds has been our working capital.

Acquisitions by Formula:

Acquisition of Shamrad Electronic (1997) Ltd. On October 2, 2022, we acquired all of the share capital of Shamrad, an Israeli private company, engaged in the supply, integration and installation of computer communication infrastructures, announcement and alarm systems and electronic security systems. Shamrad represents several companies in the field of security: ATI systems – sirens, Garrett – Metal detectors, Kopp – Ferro Magnetic detectors for MRI rooms. The total consideration for the acquisition amounted to approximately NIS 9.4 million (approximately \$2.7 million), with NIS 7.1 million (approximately \$2.0 million) paid in cash upon closing, or approximately NIS 8.6 million (approximately \$2.4 million) net of acquired cash. Acquisition-related costs were immaterial.

Acquisition of Zap Group. In April 2021, Formula acquired all of the issued and outstanding share capital of Zap Group from Apax Partners for consideration of approximately NIS 244.2 million in cash, with up to an additional NIS 60 million of consideration (for a total maximum purchase price of approximately NIS 304.2 million) contingent upon Zap Group meeting certain EBITDA targets during the first two years following the acquisition. Zap did not meet those certain EBITDA targets which would have entitled Apax Partners for such additional NUS60 million. Zap Group is Israel's largest group of consumer websites which manages more than 20 leading consumer websites from diverse content worlds with a total of more than 17 million visits per month, including Zap Price Comparison website, Zap Yellow Pages (the largest business index in Israel) and Zap Rest (Israel's restaurants index). The websites managed and offered by Zap Group provide small and medium-sized businesses in Israel with a broad and rich advertising platform and offer consumers a user-friendly search experience with a variety of advanced tools, which enable them to make rational purchase decisions in the best and most effective way.

Acquisitions by Sapiens:

Acquisition of NCDC S.A

In the fourth quarter of 2023, Sapiens acquired NCDC S.A., a Poland-based company with a knowledge of Sapiens' products in the Nordics, for a purchase price of \$11.7 million. For further information, please see Note 3(i) to our consolidated financial statements included in Item 18 of this annual report.

Investments in Sapiens Software Solutions (Decision), Tiful Gemel Ltd and Neuralmatic

On December 31, 2023, Sapiens signed an agreement for the purchase of the remaining outstanding shares of Sapiens Software Solutions (Decision) Ltd. from its minority shareholders for a total consideration of approximately \$4.1 million. The purchase was concluded on March 27, 2024.

In December 2023, Sapiens acquired the remaining 5% of the outstanding share capital of Tiful Gemel Ltd., an Israeli company which provides software solutions and managed services related to pension and provident funds in the Israeli market, thereby transforming it into a wholly-owned subsidiary of Sapiens. Total consideration amounted to \$161 thousand. Sapiens had previously acquired 75% and 20% of Tiful Gemel's outstanding shares in the second quarter of 2020 and third quarter of 2021, for \$1.3 million and \$0.4 million, respectively.

In February 2023, Sapiens acquired the remaining 34% of the outstanding share capital of Neuralmatic Ltd, transforming it into a wholly-owned subsidiary of Sapiens. The purchase price was immaterial.

Acquisition of I.T. Cognitive Ltd.

In May 2022 Sapiens acquired the entire share capital of I.T. Cognitive Ltd. (today: Sapiens Cognitive Ltd.) for a purchase price of \$3.5 million. Prior to that Sapiens had purchased from I.T Cognitive a source code license enabling it to accelerate its digital offering.

In 2021, Sapiens did not effect any material acquisitions of businesses or technologies (other than the second stage of its acquisition of Tiful Gemel in the third quarter of 2021, as described above).

Acquisitions and Divestitures by Matrix:

Acquisition of Zebra AGR Technologies Ltd. On January 1, 2023, Matrix acquired 70% of the share capital of Zebra AGR Technologies Ltd. (“Zebra”), which specializes in the marketing and distribution of software solutions in the fields of information security, cyber protection and data communication. Zebra provides distribution services, including consulting, logistics, financing, marketing, and professional services, with an authorized support and training center. Matrix paid NIS 53 million (approximately \$15.1 million) for this acquisition. Matrix and the minority shareholders of Zebra hold mutual call and put options for the remaining 30% interest in Zebra. For further information, please see Note 3(iii) to our consolidated financial statements included in Item 18 of this annual report.

Acquisition of RDT Equipment and Systems (1993) Ltd. On June 19, 2022, Matrix IT, through Matrix Integration and Infrastructure Ltd., Matrix IT’s wholly owned subsidiary, acquired all of the share capital of RDT for cash consideration of NIS 44 million (approximately \$12.7 million), or NIS 41 million (approximately \$11.9 million) net of acquired cash. As part of the purchase agreement, the sellers may be entitled to additional future consideration contingent upon RDT meeting certain future operating profit targets. As of the acquisition date, Matrix IT estimates the future value of the contingent consideration at NIS 9.9 million (approximately \$2.9 million). RDT provides services in the field of multimedia systems. RDT markets software solutions and systems for a wide range of technologies, including control and automation solutions, test and measurement equipment, advanced technological solutions for testing data communication, EMC products, radio frequency (RF) and microwaves components, and serves, among other things, as a representative in Israel for dozens of international software and hardware vendors.

Divestiture of Infinity Labs R&D Ltd. On April 24, 2022, Matrix IT concluded the sale of 45.2% of the issued and share capital of Infinity Labs R. & D. Ltd. (“Infinity”) for a total consideration of NIS 154.5 million (approximately \$46.2 million). Following the transaction Matrix IT remaining interest in Infinity’s outstanding share capital amounts to 4.9% of Infinity’s outstanding share capital. As a result of the transaction, we recognized a capital gain (before tax), in the amount of approximately NIS 148.1 million (approximately \$44.3 million), including NIS 16.7 million (approximately \$5.0 million) recorded with respect to the revaluation of the Matrix IT remaining share interest in Infinity. In accordance, as of the second quarter of 2022, Infinity’s financial results of operations were not consolidated in our financial statements and the remaining share interest of 4.9% in Infinity’s outstanding share capital was measured at fair value with subsequent changes in the fair value of the investment recognized in profit or loss. Matrix distributed the capital gain (net of tax) to its shareholders as a dividend.

Acquisition of AVB Technologies Ltd. On October 5, 2021, Matrix, through Matrix Integration and Infrastructure Ltd., Matrix’s wholly owned subsidiary, acquired 60% of the share capital of AVB Technologies Ltd. for NIS 4.6 million (approximately \$1.4 million). As part of the purchase agreement, additional consideration will be paid, subject to the achievement of certain operating profit targets, to be based on Matrix’s calculation. According to our calculation, the value of the additional consideration for the business acquisition as of December 31, 2023 is estimated at NIS 2.5 million (approximately \$0.7 million). AVB Technologies Ltd. provides services in the field of multimedia systems. AVB Technologies Ltd.’s services vary and include constructing multimedia systems for meeting rooms and video conference rooms, state of the art digital display solutions, video walls, command and control management rooms, advanced audio solutions and advanced display solutions.

Acquisition of I.T.D. Group Ltd. On April 29, 2021, Matrix acquired 75% of the share capital of the I.T.D. Group Ltd., or I.T.D. Group, for NIS 5.75 million (approximately \$1.8 million). As part of the purchase agreement, additional consideration was agreed to, subject to I.T.D. Group achieving certain operating profit targets. According to our calculation, the value of the additional consideration for the business acquisition as of the purchase date was NIS 0.2 million. Matrix also holds a future call option to purchase the additional 25% of I.T.D. Group’s share capital. I. T.D. Group is a leading provider of software development, regulation and cybersecurity services for the healthcare industry in Israel, assisting companies to design and develop innovative solutions, services, and desktop, mobile, and cloud-based apps; ensure rock-solid cybersecurity and privacy in compliance with HIPAA/GDPR standards; and manage FDA/CE submissions.

Acquisition of SQ Service Quality Ltd. On April 5, 2021, Babcom Centers Ltd., a subsidiary of Matrix, acquired 60% of the share capital of S.Q. Service Quality Ltd. for NIS 4 million (approximately \$1.2 million). As part of the purchase agreement, additional consideration was agreed to, subject to the achievement of operating profit targets, to be based upon Matrix's estimate. We and the minority shareholder of SQ Service Quality Ltd. hold mutual call and put options for the remaining 40% interest in SQ Service Quality Ltd. SQ Service Quality Ltd., has been active for more than a decade; it accompanies organizations and companies in service quality improvement processes.

Acquisition of A. A. Engineering Ltd. On April 5, 2021, Dana Engineering Ltd. (a subsidiary of Matrix) acquired 75% of the share capital of A.A. Engineering Ltd., or A.A. Engineering, for NIS 10.5 million (approximately \$3.2 million). As part of the purchase agreement, the sellers may be entitled to future additional consideration, contingent upon A.A. Engineering achieving certain future operating profit targets. As of the acquisition date, Matrix estimated the future value of the contingent consideration at NIS 0.5 million (approximately \$0.1 million). Matrix holds a call option for the remaining 25% share interest in A.A. Engineering. Since 1973, A.A. Engineering specializes in planning, management, coordination and supervision work in civil engineering projects serving a wide range of customers, both from institutions and public bodies and from leading companies in the Israeli economy.

Acquisitions by Magic Software:

Acquisition of K.M.T. (M.H.) Technologies Communication Computer Ltd. On June 8, 2023, Magic Software acquired 60% of the share interest in K.M.T. (M.H.) Technologies Communication Computer Ltd. ("KMT"). KMT delivers a broad spectrum of ICT products, cloud platform, VoIP, technical support and planning and construction of computing. Total purchase price amounted to NIS 55.0 million (approximately \$ 14.9 million) or approximately NIS 52.7 million (approximately \$14.2 million) net of acquired cash. NIS 60 million was paid upon closing of which a payment of NIS 15 million is related to a contingent consideration depending on the future operating results achieved by KMT. If such future operating results will not be fully achieved, the seller will return the whole or part of the contingent consideration paid in advance. This contingent consideration was accounted for as a financial asset measured at its fair value as of the acquisition date of NIS 5 million (\$1.3 million). For further information, please see Note 3(ii)(a) to our consolidated financial statements included in Item 18 of this annual report.

Acquisition of Appush Ltd (formerly known as Vidstart Ltd.). On December 2, 2021 (the "Appush Acquisition Date"), Magic Software entered into a share purchase agreement to acquire 50.1% of Appush Ltd. (formerly known as Vidstart Ltd.) ("Appush"), a provider of a video advertising platform that offers personalized automated methods and real-time smart optimization, helping its clients achieve high yields in the competitive digital ecosystem. According to the share purchase agreement, Magic software is committed to purchase the remainder of Appush's shares in two tranches: 30% on April 1, 2022 and 19.9% on April 1, 2023. Magic Software's commitment to purchase all of the outstanding share capital of Appush as of the closing date was accounted for as a financial liability measured at fair value in the amount of \$10.5 million. As of the closing date the estimated total consideration for the acquisition of all of the outstanding share capital of Appush amounted to \$21.5 million, or approximately \$19.9 million, net of acquired cash (of which \$11.0 million was paid in cash at closing, or approximately \$9.5 million net of acquired cash). The fair value of the financial liability referring to the purchase of the remaining 49.9% interest in Appush amounted as of December 31, 2022 to approximately \$8.6 million. As of December 31, 2023 the remaining fair value of the financial liability was \$4.6 million.

Acquisition of The Goodkind Group, LLC. On August 23, 2022, Magic Software acquired 100% of TGG outstanding share capital for a total consideration of \$11.6 million or approximately \$11.5 million net of acquired cash (of which approximately \$8 million was paid upon closing, or approximately \$7.9 million net of acquired cash). TGG provides permanent and temporary staffing services in various sectors including: Information Technology, Accounting & Finance, Digital Media, Marketing, Human Resource, Financial Services. With On-Site programs and sourcing models TGG solutions includes functions which differs from standard staffing companies. TGG provides assistance in the areas of compensation design and development, employee opinion surveys, employment policies and practices, performance management, regulatory and compliance issues and succession planning. The remainder constitutes a deferred payment payable in 2023 (approximately \$2.8 million) and 2024 (approximately \$0.9 million). During 2023 Magic Software paid \$1.9 million with respect to the 2023 deferred payment and in 2024 Magic Software paid additional \$1.5 million as final consideration for the deferred payment.

Acquisition of Intrabases SAS. On July 1, 2022, Magic Software acquired Intrabases SAS, a provider of IT professional services based in Nantes, France. The consideration of the transaction is comprised solely from a cash consideration in an amount of approximately \$3.4 million, or approximately \$3.0 million net of acquired cash.

During 2022 Magic Software concluded additional two separate asset purchase agreements. The total consideration paid for these acquisitions amounted to approximately \$1.8 million.

Acquisition of EnableIT. On April 1, 2021, Magic Software acquired the entire share capital of EnableIT, LLC, or EnableIT, a U.S.-based services company that specializes in IT staffing and recruiting, for total consideration of \$6.0 million, of which \$4.0 million was paid upon closing and the remaining \$2.0 million was to be paid in two equal installments— on April 1, 2022 and 2023. On April 1, 2022, Magic Software paid the first \$1.0 million payment and on April 3, 2023 Magic Software paid the remaining \$1.0 million.

Acquisition of Menarva. On April 1, 2021, Magic Software acquired the entire share capital of Menarva Ltd., or Menarva, an Israeli-based services company which specializes in software solutions for non-profit organizations for a total estimated consideration of up to \$5.6 million, of which, \$3.0 million was paid upon closing, and the remaining \$2.6 million was to be due in two equal installments, on April 1, 2022 and 2024, depending on the operational results of Menarva in 2022 and 2023. On April 1, 2022, Magic Software paid an additional amount of \$1.055 million in respect of the purchase price. As of December 31, 2023 the value of the additional consideration for the acquisition of the shares of Menarva is set at \$1.3 million.

Acquisition of Y.G. Soft IT Ltd. On January 1, 2021, Magic Software, through one of its Israeli subsidiaries, acquired 60% of the shares of 9540 Y.G. Soft IT Ltd., or Soft IT, an Israel-based services company which specializes in outsourcing of software development services for a total consideration of up to \$1.2 million. \$364 thousand was paid upon closing, \$251 thousand, \$234 thousand, \$223 thousand and \$41 thousand were paid in July 2021, July 2022, January 2023 and December 2023, respectively, and with the remaining amount constitutes a contingent payment that is contingent upon final settlement. The estimated fair value of the contingent consideration as of December 31, 2023 is set at \$67 thousand. Magic Software and Soft IT's minority shareholder hold mutual call and put options for the remaining 40% interest.

Acquisitions by Michpal Micro Computers (1983) Ltd:

Acquisition of Emalogic Software Ltd., or Emalogic. On June 22, 2023, our subsidiary Michpal acquired a 75% share interest in Emalogic Software Ltd., an Israeli provider of software development services, for a total consideration of NIS 23.8 million (approximately \$6.4 million) or NIS 14.4 million (approximately \$3.9 million) net of acquired cash. Michpal and the seller hold mutual call and put options, respectively, for the remaining 25% share interest in Emalogic. The options can be exercised within 90 days after the approval of Emalogic's annual audited financial statements for 2026 or 2027. The fair value of the put option measured on the acquisition date amounted to NIS 6.1 million (approximately \$1.7 million). Emalogic, is a software service provider that specializes in the development of mission-critical systems, starting from the characterization phase and through the maintenance phase. Emalogic holds extensive knowledge in the development field of user experience (UX) and user interface (UI) allowing it to provide a complete end-to-end software solution. Emalogic operates in 4 main sectors - financial, automotive, freight and cloud. Acquisition-related costs were immaterial. For further information, please see Note 3(iv) to our consolidated financial statements included in Item 18 of this annual report.

Acquisition of Formally Smart Form System Ltd., or Formally. On February 16, 2022, Michpal acquired 70% of the share capital of Formally, for a total consideration of NIS 44.8 million (approximately \$14.4 million) or NIS 43.8 million (approximately \$14.1 million) net of acquired cash. Michpal and the seller hold mutual call and put options, respectively, for the remaining 30% share interest in Formally. The options can be exercised during every year starting from January 1, 2023 in 3 equal portions of 10% each and for a period of 3 years thereafter (i.e. 10% of Formally outstanding share capital as of 1.1.23 and for a period of 3 years thereafter; 10% as of 1.1.24 and for a period of 3 years thereafter and 10% as of 1.1.24 and for a period of 3 years thereafter). Formally is an Israeli-based company and the creator of Formally Smart Form platform – a central server platform for managing knowledge and work processes, and for producing digital forms combined with a legally-binding eSignature technology allowing customers to create impressive documents in minutes and get them signed in a snap. Formally offers a variety of proprietary computerized and advanced tools for managing business processes trusted by Israel's largest financial, banking, and insurance enterprises. Its "no-code" platform, allows to convert outdated forms into a digital process for any company freeing IT teams from ongoing maintenance issues and enables employees across the organization to deliver new digital products quickly and efficiently.

Acquisition by Zap Group:

In February 2022, Zap Group completed the acquisition of 49.9% of the entire minority rights in its controlled partnership, Winhelp Ofran, a provider of digital advertising solutions for domestic travel businesses in Israel, for consideration of NIS 11.0 million (or approximately \$3.5 million).

In December 2022 Zap Group concluded the acquisition of 51% of the outstanding share capital of N.C Marketing and Advertising Ltd. (also known as “Safra digital marketing”) and 51% of the outstanding share capital of Marcomit Ltd. (“Marcomit”). Safra digital marketing is an Israeli company specializing in social media services including Facebook, Instagram and Tik-tok. Marcomit is an Israeli company specializing in digital branding for large enterprises including advanced branding materials for media and digital advertising. The total consideration paid for these acquisitions amounted to approximately \$3.5 million, or \$2.8 million net of acquired cash. As part of the purchase agreements, the sellers of Safra digital marketing and Marcomit may be entitled to additional future consideration contingent upon meeting certain future operating profit targets. The fair value of such contingent considerations, as of the acquisition dates amounted to \$0.7 million. As of December 31, 2023, the fair value of such contingent consideration amounts to \$36 thousand resulting from the reversal of \$650 thousand to profit and loss in 2023. Zap and the minority shareholders of Safra digital marketing and Marcomit hold mutual call and put options for the remaining 49% interest. The fair value of the put options measured on the acquisition date and as of December 31, 2023 amounted to approximately \$4.0 million and \$2.1 million, respectively.

Acquisition by Insync Staffing:

Acquisition of Bear Staffing Services Corporation. On December 12, 2022, Insync Staffing acquired all of the outstanding share capital of Bear Staffing, a corporation duly organized under the laws of the State of Florida for a total consideration of \$7.7 million (excluding \$8.6 million of acquired cash) with \$5.3 million paid in cash at closing with \$0.6 million paid in March 2023 and deferred payments of \$1.0 million and \$0.9 million, respectively due on the first and second anniversary of the closing date. Bear Staffing Corporation is a staffing agency providing talent for industries such as manufacturing, distribution, and call centers. Since its inception, Bear Staffing Corporation has provided more than 50,000 employees to over 2,000 employers across the United States. Leveraging leading-edge recruiting technology and their recruiting model, Bear Staffing has been able to find, attract, place, and retain talent for their clients nationwide. As a staffing agency that specializes in high-volume industries and skill sets, Bear Staffing’s objective is to provide targeted and efficient staffing solutions to meet the specific needs of their clients.

B. Business Overview

General

We are a global information technology company that is principally engaged through our directly held investees in providing software consulting services and computer-based business solutions, and in developing proprietary software products. We deliver our solutions in numerous countries worldwide to customers with complex IT services needs, including a number of “Fortune 1000” companies.

We provide our investees with our management, technical expertise and marketing experience to help them create a consecutive positive economic impact and long-term value and direct their overall strategy through our active involvement. We carry out those activities at the level of our investees rather than at our parent company level. Following our transition to IFRS during 2016, we consolidate the results of all of the entities in which Formula holds an equity interest, other than our equity investee TSG.

We operate through our subsidiaries— Matrix, Sapiens, Magic Software, Michpal, Zap Group, InSync, Shamrad Electronics and Ofek Aerial Photography— and through our equity investee TSG. We describe below the areas of our business activity:

IT Services

We design and implement IT solutions and software systems which improve the productivity of our customers' existing IT assets, enable them to effectively manage their operations and reduce their business risks in the face of changing business environments. In delivering our IT services, we at times use proprietary software developed by members of the Formula Group. We provide our IT services across the full system development life cycle, including definition of business requirements, developing customized software, implementing software and modifying it based on the customer's needs, system analysis, technical specifications, coding, testing, training, implementation and maintenance. We perform our projects on-site or at our own facilities.

We are successful in providing our services to the defense sector, utilities sector, telecommunication, healthcare, local administration, and our subsidiary Matrix IT is recognized as the market leader in Israel in the implementation of fastest-growing technologies, such as cloud, cyber, digital, data, DevOps and AI, which enable us to create significant value for our customers in managing, streamlining, accelerating and making their businesses thrive.

Proprietary Software Solutions

We design, develop and market proprietary software solutions for sale in selected niche markets worldwide. We regularly seek opportunities to invest in or acquire companies with attractive proprietary software solutions under development which we believe to have market potential. All of our investments and acquisitions in this area have been in companies with products beyond the prototype stage. In addition, from time to time, we selectively invest in companies with proven technology where we believe we can leverage our experience to enhance product positioning and increase market penetration. We provide our management and technical and financial expertise, marketing experience and financial resources to help bring these products to market. We also assist the members of our group to form teaming agreements with strategic partners to develop a presence in international markets and to raise debt and capital.

The Formula Group

Formula is the parent company of investees, which, as noted above, we refer to collectively (together with Formula) as the Formula Group. As of December 31, 2023, we held 90.1% of the shares of InSync, an 80% interest in Ofek Aerial Photography, a 48.2% interest in Matrix, a 43.6% interest in Sapiens, a 46.7% interest in Magic Software, a 50% interest in TSG through our equity holdings, and the entire share capital of Michpal, Zap Group and Shamrad (acquired in 2022). We have effective control of each of the companies in the Formula Group other than TSG for purposes of consolidation under IFRS 10. We provide all of our investees our management, technical and financial expertise, and our marketing experience, thereby asserting a positive economic impact upon, and creating long-term value for, our investees.

We direct the overall strategy of our investees. While our investees each have independent management, we monitor their growth through our active involvement in the following matters:

- strategic planning;
- marketing policies;
- senior management recruitment;
- investment and budget policy;
- financing policies; and
- support for the process of raising debt and capital.

We promote the synergy and cooperation among our investees by encouraging the following:

- transfer of technology and expertise;
- leveling of human resources demand;
- combining skills for specific projects;
- formation of critical mass for large projects; and
- marketing and selling the Formula Group's products and services to its collective customer base.

We, through our investees, offer a wide range of integrated software solutions and IT professional services, such as implementation and integration projects of computing and software, outsourcing, software project management, software development, IT managed services, operating a network of high-tech training and instruction centers, providing software testing and QA, depending on specific needs of the customer and depending on the subject expertise necessary on a case by case basis, and design, develop and market proprietary software solutions for sale in selected niche markets, both in Israel and worldwide. Formula's Chief Executive Officer and Chief Financial Officer serve as the Chief Executive Officer and Chief Financial Officer, respectively, of Magic Software as well, and Formula's Chief Executive Officer also serves as Chairman of the Board of each of Sapiens and Matrix.

As of the date of the report, the global economy continues to face the consequences of relatively high inflation, relatively high interest rates, and reduced growth. During 2023, the world economy showed a trend of recovery, including a reduction in inflation rates around the globe 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 COVID-19 restrictions, the increase in demand, and the ongoing war between Russia and Ukraine. In order to curb inflation, the central banks made continuous 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 U.S., 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 U.S. stabilized at approximately 5.5% and the Federal Reserve Bank of the U.S. announced that the interest rate is expected to remain in the range of 5-5.25% in 2024. The Eurozone also experienced in 2023 a stabilization of interest rates and a moderation of inflation levels (although it was 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, due to 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. With the exception of the activity under the training and implementation line of business, all other operating segments of Matrix showed improvement in 2023 compared to 2022. This included activities such as cloud services, information security, as well as projects in the fields of health, digital, cyber and command and control.

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 Israel, which led to an ongoing war that continues currently. 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.

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" (Israel's retaliatory war against the terrorist group Hamas in Gaza) and a possible effect on the prices of goods of (i) maritime traffic (the attacks of the Houthis from Yemen) and (ii) the exchange rates of the main currencies against the shekel.

As a Group that provides solutions, products, and services in the field of information systems, we compete with other companies in the Israeli high-tech industry for quality personnel. In addition, a significant part of our sales 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 lay 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). We believe that the trend of reducing manpower in high-tech companies may make it easier for us to recruit and retain employees and mitigate pressures for wage increases. On the other hand, the slowdown in the high-tech industry could lead to a decrease in demand and even hurt some of our customers in this field of activity and consequently cause damage to the results of the company's activities.

On October 7, 2023, the Iron Swords War broke out. 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 backdrop 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 afterwards, substantially increase the risks of the State of Israel, and may damage the country's fiscal strength in the foreseeable future. Despite the limited negative impact of the war on our Israeli based operations, our Israeli based activities in the fourth quarter of 2023 reflected continued increase in volume of activity, revenues, profit, and cash flow, which compensated for the effects of the war. 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 our Israeli clients and/or lead to a reduction in demand and a reduction in their IT procurement budgets, and accordingly affect the scope of our Israeli based activities with those clients and/or affect their payment ability.

In parallel to the potential negative effects, there are several factors in connection with our Israel-based activities that may moderate the aforementioned effects, including:

- o We maintain a significant customer base (over 5,000 active customers), most of them large and financially stable companies and entities.
- o Our activities abroad account for approximately 40% of our revenues and such activities are not expected to be influenced by the war.
- o We maintain extensive activity in strong sectors such as government, public bodies, security, insurance and finance, health, and transportation.
- o We have limited activity with medium and small customers whose exposure to the effects of the war in Israel is relatively high.
- o We have a wide diversification of areas of activity, including areas of activity that are relatively resistant to potential negative effects of the war in Israel, such as the cyber, defense, the cloud, and more.

Our Subsidiaries

Matrix IT

Matrix IT Ltd. is Israel's leading IT services company as demonstrated in recent research reports of the Israeli IT market, published by the research companies IDC and STKI. Matrix employs approximately 11,200 software, hardware, integration, engineering and training personnel, which provide advanced IT services to hundreds of customers in the Israeli market as well as to customers in the U.S market. Matrix executes some of the largest IT projects in Israel. It develops and implements leading technologies, software solutions and products. Matrix provides infrastructure and consulting services, outsourcing, offshore, near-shore, training and assimilation services. Matrix represents and markets leading software vendors. Among its customers are most of the leading Israeli organizations and companies in the industry, retail, banking and finances, education and academe, Hi-tech and start-ups, transportation, defense, healthcare and the government/public sectors. Matrix also markets, sells and distributes software solutions and hardware representing wide variety of software vendors from Israel and around the world. Matrix IT's shares are traded on the Tel Aviv Stock Exchange.

The solutions, services and products supplied by Matrix are designed to improve Matrix's customers' competitive capabilities, by providing a response to their unique IT needs in all levels of their operations.

Areas of Operation

Matrix operates through its directly and indirectly held subsidiaries in the following principal areas:

- Information Technologies (IT) Software solutions and services, Consulting & Management in Israel.
- Information Technologies (IT) Software solutions and services in the United States.
- Computer and cloud infrastructure and integration solutions.
- Software product marketing and support.
- Training and integration.

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

The software solutions and services in Israel provided by Matrix consist mainly of providing tailored software solutions and upgrading and expanding mainly existing large-scale software systems. These services include, among others, 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. Furthermore, the activity in this segment includes project management consulting services and multi-disciplinary operational and engineering consulting services, including supervision of complex engineering projects, all according to client specific needs as the scope of work invested in each element varies from one customer to the other.

In 2023, under this line of business Matrix recorded revenues of approximately NIS 2.856 billion (approximately \$775.0 million) compared to NIS 2.435 billion (approximately \$725.9 million) in 2022, an increase of approximately 17.3% when measured in NIS. Operating income in 2023 was approximately NIS 192.5 million (approximately \$52.3 million) compared to approximately NIS 179.1 million (approximately \$53.4 million) in 2022, a increase of approximately 7.5% when measured in NIS. In 2023, activity in software solutions and value-added services in Israel accounted for approximately 54.6% of Matrix's revenues and approximately 48.9% of its operating income. The increase in revenues and operating income were primarily attributable to an overall increase in demand for Matrix's services across all areas of operations under this line of business and especially in the fields of expert services, defense, cyber, digital, and core systems activities.

Information Technologies (IT) Software solutions and services in the United States

Matrix's activities in this segment are performed by two lines of business – Matrix US Holdings and Xtivia. The two lines of business primarily provide software solutions and services of Governance Risk and Compliance (“GRC”) experts, including activities on the following topics: financial risk management, fraud prevention management, anti-money laundering, trade surveillance, payment services and ensuring regulatory compliance in these matters, as well as, specialized advisory services in the area of compliance with financial regulation and operational services, payment services, as well as solutions and specialized technological services in areas such as: portals, BI (Business Intelligence) DBA (Data Base Administration), CRM (Customer Relation Management) and EIM (Enterprise Information Management). Furthermore, the activity under this line of business includes dedicated solutions for the GovCon Government contracting market, IT help desk services specializing in healthcare and software product distribution services particularly for IBM, BMC and Atlassian products to customers in the public-government sector in the U.S.

In 2023, under this line of business, Matrix recorded revenues of approximately NIS 478.4 million (approximately \$129.8 million) compared to NIS 434.3 million (approximately \$129.4 million) in 2022. Operating income in 2023 was approximately 76.2 million (approximately \$20.7 million), compared to approximately NIS 60.2 million (approximately \$17.9 million) in 2022, an increase of approximately 15.2% when measured in U.S dollars. In 2023, the activity in the U.S. accounted for approximately 9.1% of Matrix's revenues and approximately 19.4% of its operating income. In 2023, Matrix's operation in the United States (when measured on U.S dollar) especially with respect to its continued collaboration with NICE Actimize in the field of providing artificial intelligence-based solutions to prevent money laundering and financial fraud, reflected a significant improvement with overall operating income increasing 15.2% alongside operational margin growing by 200 basis points from 13.9% to 15.9%. Matrix's improved profit and profitability resulted from improvement in operational efficiency accompanied by higher utilization rate of employees.

Computer and cloud infrastructure and integration solutions

Matrix's activities in this segment, is 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 Matrix - Cloud Zone) and a myriad of services and products regarding office automation and printing solutions, representation of global 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, provision of industrial video and image processing solutions as well as Database services and Big data services (through the specialized business unit Data zone). Matrix's infrastructure and integration solutions include solutions of IBM, Oracle Red Hat, Dell-Boomi and others.

In 2023, under this line of business, Matrix IT recorded revenues of approximately NIS 1,431 million (approximately \$388.3 million), compared to approximately NIS 1,346 million (approximately \$401.1 million) in 2022, an increase of approximately 6.3% when measured in NIS. Operating income in 2023 was approximately NIS 88.0 million (approximately \$23.9 million), compared to approximately NIS 76.6 million (approximately \$22.8 million), an increase of approximately 14.9% when measured in NIS and in line with the increase in revenues. In 2023, activity in computer and cloud infrastructure and integration solutions accounted for approximately 27.3% of Matrix's revenues and for approximately 22.4% of its operating income. The increase in both revenues and operating income is mainly attributable to Matrix's continued cultivation of cloud computing annual recurring revenues (ARR), increased demand for Matrix's products and services under this line of business recorded across various fields of activities, and to the first-time full year consolidation of RDT Equipment and Systems (1993) Ltd., completed in June 2022.

Software product marketing and support

Matrix's activities in this segment include marketing, sale distribution and support for various software solutions, web world content management, database and data warehouse mining, application integration, database and systems, data management and software development tools.

In 2023, under this line of business, Matrix recorded revenues of approximately NIS 294.2 million (approximately \$79.8 million) compared to approximately NIS 249.9 million (approximately \$74.5 million) in 2022, an increase of approximately 17.8% when measured in NIS. Operating income in 2023 was approximately NIS 29.9 million (approximately \$8.1 million), compared to approximately NIS 15.7 million (approximately \$4.7 million) in 2022, reflecting a year over year growth of 90.5% when measured in NIS. In 2023, activity in software product marketing and support accounted for approximately 5.6% of Matrix's revenues and approximately 7.6% of its operating income. The increase in both revenues and operating income were primarily attributable to the first-time consolidation of Zebra AGR Ltd., acquired on January 1, 2023 and to the overall increase in the demand for Matrix's offerings under this line of business. It should be noted 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 and carries significantly higher operating margin compared to other activities under this line of business.

Training and integration

Matrix's activities in this area consist of operating a network of training centers which provide advanced courses for high-tech professionals, courses for developers and professional training, and soft skills and management training, and providing training and instructions with respect to computer systems. Additional activities in this segment consist of training services and implementation of computer systems directly to organizations and outsourcing and BPO of management of training centers to customers. In recent years Matrix has also started outsourcing IT services based on graduates from its courses.

In 2023, under this line of business, Matrix recorded revenues of approximately NIS 172.8 million (approximately \$46.9 million), compared to approximately NIS 207.6 million (approximately \$61.9 million) in 2022, a decrease of approximately 16.8% year over year when measured in NIS. Operating income in 2023 was approximately NIS 6.9 million (approximately \$1.9 million), compared to approximately NIS 18.9 million (approximately \$5.6 million) in 2022, a decrease of approximately 63.6% year over year, in line with the decrease in revenues. The decrease in revenues and operating income in 2023 reflects an overall decrease in the demand for training activities compared to last year, in line with the decrease in the demand for employees in the high-tech sector in Israel in 2023. In addition, the training activity was adversely affected by Israel's Home Front Command declared limitations, during the first weeks of the war, which limited organizations' capabilities to hold frontal courses at their facilities from the fear of mass casualty events. The 2023 year marked the continuation of the slowdown in the high-tech field globally and particularly in Israel due to the internal conflict resulting from the government's intention to legislate a legal reform, and in the last quarter of 2023, due to the implications of the Iron Swords War. All of these led to a sharp decrease in investments in the Israeli high-tech sector in 2023, especially from abroad. As a result, there were reductions in the workforce and layoffs in Israeli companies in the field, including in the R&D centers of high-tech multinational companies. In 2023, activity in training and integration accounted for approximately 3.4% of Matrix's revenues and for approximately 1.7% of its operating income.

Matrix provides solutions, services and products primarily to the following market sectors (or verticals): banking and finance, high-tech and startups, industry and retail, government and the public sector, defense, transportation, healthcare, and education and academia.

Matrix offers to each market sector a broad range of solutions and services, customized for the specific needs of that sector. Matrix operates dedicated departments, each of which specializes in a particular sector. Each such department supplies customers in that sector with a product and services offering providing a response to most of its IT requirements, based on an in-depth business understanding of the challenges which are typical to that sector. Matrix established a separate division for each particular market sector, which manages the operations relating to that sector.

Specialization in the various sectors is reflected in the applications, professional and marketing aspects of each sector. Accordingly, the professional and marketing infrastructure required to support each market sector is developed to address such sector's specific needs.

In addition to the five sector-based areas of operations, Matrix operates three horizontal divisions providing specialist services for all of the different sectors of operations as follows:

- Expertise centers – Matrix operates approximately 30 “expertise centers” (“Centers of Excellence”), in areas such as: Digital, Cloud Computing, Internet of Things (IOT), User Experience, Mobility (Mobile Technology), Analytical BI and Big Data, DevOps, Service Oriented Architecture (SOA), Customer Relations Management (CRM), Enterprise Resource Planning (ERP), eXtended Relationship Management (XRM), Open Source, Security & Cyber, Machine Learning, Smart Campus, Data Bricks Artificial Intelligence, etc. These Centers of Excellence are based on business vertical concept, which is targeted to yield significant added value to the company's customers, including: group of professionals that are focused and have expertise in the related technologies, hands-on experience and expertise in the related technologies, methodologies, and best practices; and strategic management consulting center that provides customers with diverse consultation services on topics such as organization, strategy, complex project management in areas such as environmental planning, transportation and chain of supply, business development and technological development.

- Matrix R&D and Offshore Services - Quality assurance and software development services under an offshore/“nearshore” model which is carried out by Israeli or foreign national employees (mainly in Bulgaria and Macedonia), Matrix promotes this service under a unified brand called Matrix R&D and Offshore Services abroad and under the brand “Talpiot” in Israel.
- Management/engineering consulting services - Comprehensive management and engineering consulting services, from the stage of adoption of strategy through the stages of implementation and effecting of changes, including project management of complex projects, including engineering projects, engineering supervisory projects of a wide scope, and projects in the fields of planning and environmental, and transportation, as well as multiple-field engineering advisory services and advisory and implementation in the field of management of supply chain and management of operational logistics.

In the context of its offshore/“nearshore” activities, Matrix conducts IT-related activities, including content development, quality assurance, maintenance, customer call center services indexing and related activities that are performed in a specific region or country where such activities can be conducted most inexpensively. Matrix offers its enterprise customers these types of solutions, whether via its “nearshore” Talpiot project, via its offshore solutions that are based on its development centers in Bulgaria and Macedonia or via back-office and call center services through Babcom Centers Ltd. (a company located in the Galilee, housing thousands of educated and skillful men and women interested in developing a career near their homes). Periods of economic cautiousness (such as the present time) provide an added incentive for these types of inexpensive economic solutions. This trend is likely to expand Matrix’s operations in these areas in the context of its “Matrix Global” activities.

Matrix’s customers include large and medium size enterprises in Israel, including commercial banks, loan and mortgage banks, telecommunications services providers, cellular operators, credit card companies, leasing companies, insurance companies, security agencies, hi-tech companies and startups, the Israeli Defense Forces and government ministries and public agencies and media and publishing entities. The majority of Matrix’s customers in the software solutions and value-added services business segment in Israel have a business relationship with it for more than ten years.

Sapiens

Overview

Sapiens is a leading global provider of software solutions for the insurance industry. Sapiens extensive expertise is reflected in its innovative software platforms, suites, solutions and services for property & casualty (P&C); life, pension & annuity (L&A); reinsurance; financial and compliance (F&C) and workers’ compensation (WC). Sapiens offers a full digital suite that facilitates an innovative, holistic and seamless digital experience for carriers, agents, customers and assorted insurance personnel, across multiple devices and technologies. Sapiens offerings enable its customers to effectively manage their core business functions, including policy administration, claims and billing, and offer support during an insurer’s journey to becoming a digital insurer. Sapiens portfolio also covers underwriting, illustration and electronic applications. Sapiens also supply a complete reinsurance offering for providers and a decision management platform tailored to a variety of financial service providers, so business users can quickly deploy business logic and comply with policies and regulations across their organizations. Sapiens also sell software products to non-insurance customers which consists of less than 5% of their revenue.

In 2023, Sapiens continued to grow strongly, as it continued to build upon its existing business, including the three main acquisitions that it had carried out in 2020, and focused upon investing significantly in its solutions over the course of the year. The vast majority of Sapiens’ revenue growth in 2023 and 2022 reflected organic growth of 8.1% and 8.3% respectively, given the absence of material M&A transactions (other than our acquisition of NCDC S.A. in the fourth quarter of 2023, which did not impact revenues materially). Sapiens revenue for 2023 grew by 8.4%, as opposed to 3% in 2022. That revenue growth resulted primarily from currency exchange rate changes in 2022, which adversely impacted Sapiens 2022 revenue by 5.4%.

Sapiens’ platforms possess modern, modular architecture and are digital-driven, providing full coverage for all business aspects of policy management, digital engagement and data analysis. They empower customers to respond to the rapidly changing insurance market and frequent regulatory changes, while improving the efficiency of their core operations. These process enhancements increase revenue and reduce costs.

Sapiens' software portfolio is comprised of:

- **Property & Casualty** – a comprehensive software platform and solutions supporting a broad range of business lines, including personal, commercial, MPL and specialty lines, as well as reinsurance and workers' compensation (see below). Sapiens core solutions are pre-integrated with their DigitalSuite, analytics and decision modeling solutions, all of which are also available stand-alone. Sapiens' portfolio includes Sapiens Cloud-first Platform for Property & Casualty, which is comprised of a commonly shared Data and Digital solutions and two core suites: Sapiens CoreSuite for Property & Casualty (for North America) and Sapiens IDITSuite for Property & Casualty (for EMEA and APAC). We provide a flexible proposition where Insurers can choose between deploying our full core suite or one or more of our standalone components: policy, billing and claims.
- **Life, Pension & Annuities** – a comprehensive, cloud-based, digital software platform, suite and complementary solutions for the management of a diversified range of products for life, pension & annuities. Our core solutions are pre-integrated with our DigitalSuite, analytics and decision modeling solutions, all of which are also available stand alone. Our portfolio includes Sapiens Platform for Life, Pension & Annuities, Sapiens CoreSuite for Life, Pension & Annuities; Sapiens UnderwritingPro for Life & Annuities; Sapiens ApplicationPro for Life & Annuities; Sapiens IllustrationPro for Life & Annuities; and Sapiens ConsolidationMaster for Life & Pension.

Digital – Sapiens Cloud-based DigitalSuite enables insurers to incorporate a fully digital experience for customers, agents and employers, enhancing insurers' engagement with customers, enhancing their end-consumers' experience and fostering a rapid time to market for new digital initiatives. Sapiens Digital Suite is pre-integrated as part of Sapiens' comprehensive platforms or can be deployed stand-alone on top of any 3rd party core solution already in place. Comprised of innovative digital modules and content libraries to facilitate diverse customer journeys, DigitalSuite includes: low-code/no code Journey Composer, insurance-driven API Layer, and portal solutions for customers, agents and employers. Sapiens have also added an AI driven chat-bot solution (BotConnect) which knows to hand off to a live agent (LiveConnect) to facilitate omnichannel communications.

Cloud-based – Sapiens' solutions are running and deployed in public clouds of the leading global cloud vendors, providing our customers with them inherent benefits of a modern cloud-based application.
- **Data and Analytics** – together with Sapiens' digital offering, Sapiens offers an advanced data and analytics platform, which includes: an analytics platform that drives analytics adoption across the organization with compelling, insightful dashboards and apps; a comprehensive BI solution with pre-configured reports, dashboards and scorecards; predictive analytics, which uses AI and Machine Learning to generate actionable insights based on different models across the insurance value chain.
- **Reinsurance** – a market-leading complete reinsurance software solutions for full financial control and auditing support. Sapiens' portfolio includes: Sapiens ReinsuranceMaster, Sapiens ReinsurancePro and Sapiens Reinsurance GO, providing solutions to various sizes of insurance companies.
- **Workers' Compensation** – Sapiens workers' compensation offerings handle comprehensive policy/billing and claims needs. Sapiens solution portfolio Sapiens CoreSuite for Workers' Compensation and Sapiens GO for Workers' Compensation, that can be deployed as a full suite or in a modular manner (policy / billing / claims), and is pre-integrated with Sapiens' DigitalSuite and its Analytics solutions.

- **Medical Professional Liability** (“MPL”) – Sapiens MPL offering provides a complete end-to-end solution for managing the insurance processes for the medical malpractice market, including policy management, billing and claims, all adjusted to the unique characteristics of this specific market. The Sapiens Digital and Data platforms are also pre-integrated to the MPL core solution and thus providing additional value add and benefits to Sapiens MPL customer base.
- **Financial & Compliance** – Sapiens offers financial & compliance solutions comprised of both annual statement and insurance accounting software. This software includes Sapiens FinancialPro, Sapiens Financial GO, Sapiens StatementPro, Sapiens CheckPro and Sapiens Reporting Tools.
- **Decision Management** – Sapiens Decision is an enterprise-scale platform that enables institutions and “citizen developers” across verticals to centrally author, store and manage all organizational business logic. Organizations use it to track, verify and ensure that every decision is based on the most up-to-date rules and policies. Our Decision management products are offered across verticals (including commercial banking, investment banking, mortgage banking, insurance – for both P&C and life, government, etc.).
- **Technology-Based** – tailor-made solutions (unrelated to the insurance or financial services market) based on Sapiens eMerge platform, which provides end-to-end, modular business solutions, ensuring rapid time to market.

Sapiens’ Marketplace and its Needs

Sapiens’ Target Markets

Sapiens operates in a large market undergoing significant transformation.

Sapiens operates in a large market undergoing significant transformation. According to the Gartner report, “Forecast: Enterprise IT Spending for the Insurance Market, Worldwide, 2021-2027, 4Q23 Update” (a market statistics research report by Gartner, a research and consulting firm, written by Rajesh Narayan, James Ingham, Inna Agamirzian, Rika Narisawa and 19 more analysts that was published in December 2023, and covers internal services, IT services, software, telecom services, devices, and data centers systems, which we refer to herein as the “Gartner report”), Gartner forecasted global insurance market IT spending to grow by 7.0% in 2023 and to reach nearly \$213 billion in U.S. dollars. This industry is predicted to reach \$306 billion by 2027, growing at a 9.0% compound annual growth rate (CAGR) from 2022 through 2027. This growth will be driven by an increase in IT services spending and software spending at CAGRs of 9.9% and 14.1%, respectively, according to the Gartner Report.

Gartner forecasts that total insurance IT spending on software in 2024 will be \$63.0 billion (software includes application software (analytics and business intelligence; back office/ERP and supply chain; front office/CRM; collaboration), infrastructure software (application development and middleware; information management; storage management software; and system and network management), and vertical industry-specific applications. Gartner forecasts global IT spending in insurance will increase by 8.9% in 2024 to reach \$232.3 billion in constant U.S. dollars. From 2022 to 2027, the spending is forecast to grow at a CAGR of 9.0%, driven by the growth in IT services and software at a CAGR of 9.9% and 14.1%, respectively. Total insurance IT spending on software in 2023 will be \$52.9 billion.

Sapiens estimates that its current total addressable market for core insurance software solutions and the accompanied point solutions and the corresponding part of IT services is approximately \$60 billion, which it expects will grow as a result of insurance carriers’ and financial institutions’ need to better address customers needs, via modernizing software solutions from external providers, to overcome operational challenges presented by the inefficiency of their legacy core.

The insurance market is a large, complex and highly regulated environment. Insurance carriers operate in a super-competitive and quickly evolving ecosystem, which necessitates differentiating their value propositions. Additionally, providers operate under a rigid regulatory regime that demands fast compliance. The insurance market is going through a rapid evolution process, driven by needs and demands of their customers, complex and evolving ecosystems, digital distribution channels and new business models, all enabled by new technologies.

To efficiently manage their operations, insurance carriers require IT platforms that enable rapid introduction of changes via configurable, user-driven activities, integration with internal and external systems, control and auditing of employees' work, support for omni-channel distribution and clear visibility into the carrier's business operations, through streamlining and intelligent usage of data.

To compete in the rapidly changing environment, and win the competition for end customers, insurance carriers require a coherent digital proposition, allowing them to better interact with their customers in a digital and omni-channel manner. They are increasingly using robotics, predictive analytics, AI and machine learning to automate processes and obtain stronger business insights. The cloud can also be utilized for improved operations and scale.

Insurance carriers are experiencing substantial operational challenges due to the inefficiency of their legacy policy administration systems and their lack of digitalization. These legacy systems, which include both technical and functional limitations, acutely impact carriers' ability to cope with growing challenges, such as the need for innovation, the shift of power to the consumer, and the dynamic and constantly changing regulatory environment.

Property & Casualty Market

Property & casualty insurance protects policyholders against a range of losses on items of value. P&C insurance includes the **personal segment**, which is insurance coverage for individuals, with products such as motor, home, personal property and travel; the **commercial segment**, covering aspects of commercial activity, such as commercial property, car fleets, cyber and professional liability; and **specialty lines**, covering unique domains, such as marine, art and credit insurance. This market also includes workers' compensation for market carriers, administrators and state funds, and Medical Professional Liability for health care professionals.

During the past few years, the P&C market has been characterized by a fast rate of digital adoption. New business and technology models are adopted rapidly, to launch innovative business offerings. This requires advanced software solutions, both on the core layer, which needs to be flexible and open, and with the variety of digital tools addressing customer experience needs.

Life, Pension & Annuity Markets

Life, pension & annuity providers offer their customers a wide range of products for long-term savings, protection, pension and insurance. They assist policyholders with financial planning through life insurance, medical and investment products. Their products can be classified into several areas, primarily investment and savings, risk and protection, pension and health-related products. These products can be targeted to individuals, as well as group- and employee-benefit types of products.

The products in this field are long-term in nature. When insurance providers consider purchasing new platforms from Sapiens, the decision is typically slower and involves multiple decision-makers throughout the organization.

Reinsurance Market

Reinsurance is insurance that is purchased by an insurance company (ceded reinsurance) from another insurance company (assumed reinsurance) as a means of risk management. The reinsurer and the insurer enter into a reinsurance agreement, which details the conditions upon which the reinsurer would pay the insurer's losses. The reinsurer is paid a reinsurance premium by the insurer and the insurer issues insurance policies to its own policyholders. The insurer must maintain an accurate system of records to track its reinsurance contracts and treaties, to avoid claims leakage.

Workers' Compensation

Workers' compensation is one of the largest lines of business in the P&C industry in North America. But future profitability is getting harder to maintain, with medical and indemnity costs per lost time claim increasing at rates greater than inflation. Insurance organizations require technology solutions that can adapt quickly to business and market conditions, offering high levels of accuracy and efficiency.

Financial & Compliance Market

Financial professionals face overwhelming challenges as they struggle to satisfy ever-changing regulatory requirements, while meeting the demands of managerial reporting. The move towards globalization has introduced new currencies, and CEOs need more performance data for strategic decision-making. Organizations require one partner to optimize efficiencies with solutions that can be implemented quickly.

Decision Management Market

Increasing competition, regulatory burden, customer experience expectations and the proliferation of digital and product innovation requirements have necessitated a shift in thinking and approach among organizations across verticals. By replacing conventional policy and process management with the discipline known as "decision management," financial institutions are bridging the gap between business and IT, by enabling business users to rapidly frame requirements in formal business models that can be easily understood by all stakeholders.

The decision management processes affect overall corporate performance, including its impact on customers and competitors. Decision management systems are a key performance component of every financial services organization, as they help the organization define, avoid and hedge financial risk.

Many large organizations, particularly in the financial services market, must comply with complex regulations. They operate in highly competitive markets that require quick responses. Business logic drives most of the financial services transactions and is the backbone of an organization's policies and strategies, and its ability to successfully operate. To achieve efficiency, business owners must assume ownership of the business logic and possess the ability to define, modify, standardize and reuse it across the organization. Business logic is defined today by business owners and compliance officers, but IT departments translate the requirements into code. This process raises several key challenges: 1) the result does not always accurately reflect the business requirements; 2) the new requirements might conflict with, or override, previous requirements; 3) the changes can take a long time and, 4) the entire process is not fully audited. These gaps often create an inefficient and risk-exposed organization. Other than as disclosed elsewhere in this Annual Report, we are not aware of any trends, uncertainties, demands, commitments or events for the period from January 1, 2023 to December 31, 2023 that are reasonably likely to have a material adverse effect on our revenue, profitability, liquidity or capital resources, or that caused the disclosed financial information to be not necessarily indicative of future operating results or financial condition.

Sapiens' Market Drivers

Large insurance and financial organizations must constantly invest in their IT systems to respond to key market drivers. They require the ability to:

- Satisfy today's sophisticated, tech-savvy and demanding end-customers – who demand the type of instant, personalized service they enjoy from Netflix or Amazon – via digitalization and innovative initiatives, providing a stronger customer experience and engagement.
- Facilitate, improve and automate traditional insurance processes to make them easier for end-customers, by utilizing advanced technologies, such as digital engagement, mobile, artificial intelligence (AI) machine learning, and cloud computing.
- Provide innovative business models, based on technology capabilities and digital operation (such as portals, web-based acquisition processes, advanced analytics, customer engagement platforms and data sources – including wearables, the Internet of Things and robo-advice).

- Respond to complex and evolving regulatory standards (past and current standards include Solvency II, IFRS 17, Dodd-Frank legislation, GDPR, etc.)
- Support internal customers' growth and operations. This includes reducing the time to market of new products, expanding into new geographies, reducing costs and streamlining operations.
- Rapidly launch new products and propositions to the market, within a short timeframe and using existing, pre-defined capabilities.
- Improve operational efficiency and focus on reducing operating costs and improving the total cost of ownership, focusing on automation, AI and data-driven processes to achieve that.

Sapiens' Market Requirements

As a result of the above, we believe the following are key considerations for insurance carriers that are considering upgrading their legacy systems:

- **Dynamic business environment with constantly changing regulations** – insurance carriers still use outdated legacy systems that are costly and time-consuming to modify or upgrade. This has prevented them from innovating and growing. Carriers who use legacy systems may find it difficult to modify existing products, introduce new products and reach untapped market segments. Frequently changing global regulatory requirements necessitate specialized data and business rules, which makes change implementation particularly challenging.
- **Change in end-consumers' preferences and the shift of power to consumers** – insurance carriers must rapidly adapt to the shifting needs and behaviors of consumers and distributors, including the types and terms of insurance products offered, and how consumers access information. Insurance providers require systems with integration capability and support for multi-channel distribution, so they can reach their clients' customers and partners using multiple methods, including social media, across devices.
- **A need to improve operational efficiency and reduce total cost of ownership** – Sapiens believes that a significant percentage of insurance carriers are still using inefficient and outdated processes which lack automation of operations and workflows, and thus do not offer efficient process management. Many of these processes likely have high error rates. Additionally, the ongoing maintenance of legacy systems is expensive and technically difficult. A specialized IT staff with the requisite skills and experience needed to maintain these systems is difficult to find and then eventually replace. Insurers seek systems that are modern, digital, cloud-based, automated, efficient and easy to maintain, and can lower costs over the long term.
- **Increasing global and multi-national operation** – a rising number of insurers are accelerating their growth initiatives through global acquisitions. These insurers seek a single provider who can deliver solutions that will be used across markets, combining the support of local regulatory requirements and specific customer needs, while driving a generic corporate business approach and strategy across the globe, reducing costs and overhead.
- **Exploring new business models and innovative propositions** – carriers are increasingly looking to: join innovative ecosystems; adopt and use new technologies, and partner with insurtechs; bring modern and differentiating propositions to the market; reduce cost; enhance and speed customer engagement; and improve their business parameters and KPIs.
- **Going digital and shifting to Cloud** – digitalization holds significant potential for insurers, but only if they manage to efficiently digitalize their operations, support multi-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – across devices. Same is true for Cloud transition, where more insurers are moving their IT systems to be managed in the Cloud.

Many large organizations, particularly in the financial services market, must comply with complex regulations. They operate in highly competitive markets that require quick responses. Business logic drives most of the financial services transactions and is the backbone of an organization's policies and strategies, and its ability to successfully operate.

To achieve efficiency, business owners must assume ownership of the business logic and possess the ability to define, modify, standardize and reuse it across the organization. Business logic is defined today by business owners and compliance officers, but IT departments translate the requirements into code. This process raises several key challenges: 1) the result does not always accurately reflect the business requirements; 2) the new requirements might conflict with, or override, previous requirements; 3) the changes can take a long time and, 4) the entire process is not fully audited. These gaps often create an inefficient and risk-exposed organization.

Sapiens' Software Offerings

Sapiens' offerings not only enable its customers to effectively manage their core business functions – including policy administration, claims and billing – they support insurers on their path to digital transformation. Sapiens' portfolio also provides a variety of complimentary solutions for critical requirements such as reinsurance management, underwriting management, illustration software, electronic applications and financial compliance tools. The latest versions of Sapiens' platforms possess modern, modular cloud-first architecture and are digital-driven, providing full coverage for all business aspects of policy management, digital engagement and data analysis. They empower customers to respond to the rapidly changing insurance market and frequent regulatory changes, while improving the efficiency of their core operations. These enhancements increase revenue and reduce costs.

Sapiens provides a comprehensive digital & analytics suite, which is pre-integrated in Sapiens core solutions, across P&C, L&A and WC business, but also available stand-alone to insurers whether they utilize our core solutions or not. Sapiens DigitalSuite provides a strong customer engagement and experience capabilities through a wide range of connectivity tools such as portals, chatbots, live-chats and low-code/no-code digital business processes builders, are allowing insurance companies to rapidly go to market with new propositions, and to manage a data-driven operation.

All those capabilities, across both business and core processing and across data & analytics, digital engagement, AI & ML use cases and cloud management together form the unified holistic Sapiens Insurance Platform, which Sapiens continues to develop, and which brings a fully integrated yet loosely coupled, SaaS-based insurance platform, managing the full lifecycle of any insurance business.

Sapiens offers its insurance customers a range of packaged software solutions that are:

- **Digital-led** – revealing their history and anticipating their future needs, while facilitating easy engagement across preferred interaction channels and multiple devices.
- **Cloud-based** - Sapiens' solutions are running and deployed in public clouds of the leading global cloud vendors, providing our customers with the inherent benefits of a modern cloud-based application.
- **Data-driven with increasing emphasis on ML, AI and GenAI** – based on set of data analysis tools, from data-warehouse and reporting, through business intelligence and analytics, to predictive and advanced analytics based on machine learning (ML) – so Sapiens' customers can become a data-driven operation. Sapiens leverages the strong Microsoft partnership to achieve progress around the new Generative AI capabilities.
- **Highly automated** – by using various technologies, from decision to robotics, we improve efficiency and offer agile customer engagement.
- **Comprehensive and proven**– support for insurance standards, regulations and processes, by providing field-proven functionality and best practices.

- **Configurable and rich functionality**—easily matches our customers’ specific business requirements. Our flexible architecture and configurable structure allow quick functionality augmentation that permits our platform to be used across different markets, unique business requirements and regulatory regimes. We utilize our knowledge and extensive insurance best practices and feature business-led configuration, thus enabling a rapid adaptation of our solutions using smart configuration tools and no-code/low-code approach.
- **Open architecture and insurtech ecosystem** – provides easy integration to any external application under any technology, allowing streamlined connectivity to all satellite applications. This enhances the digital experience and omni-channel distribution, while maintaining total platform independence and system reliability. Easy interaction with various insurtech companies providing point-solutions that can be consumed by our platforms is enabled.
- **Component-based and scalable** – allows our customers to deploy platforms and solutions in a phased and modular approach, reducing risk and harm to the business, while supporting the growth plans and cost efficiency of the organization.

Sapiens’ packaged software solutions enable:

- **Rapid deployment of new insurance products** – via configurable software and using pre-defined templates, which create a competitive advantage in all the insurance markets we serve.
- **Improvement of operational efficiency and reduction of risk** – full insurance process automation, with configurable workflows, audit and control, streamlined insurance practices, and simple integration and maintenance.
- **Reduction of overhead for IT maintenance** – easy-to-integrate and simple-to-configure solutions with flexible and modern architecture, resulting in lower costs for ongoing maintenance, modifications, additions and integration.
- **Enhanced omni-channel distribution, communication and focus on the customers** – event-driven architecture, a proactive client management approach, rapid access to all levels of data, and a holistic view of clients and distributors.
- **Cloud-first as a preferred deployment model** – with the flexibility to also provide an on-premise deployment.
- **Support for digitalization** –insurers and financial services institutions who manage to efficiently digitalize their operations, support omni-channel distribution and ensure that agents and customers are able to access real-time, accurate data at any time and from anywhere – including tablets and mobile devices – will unlock massive potential.
- **Cloud services** – offering our customers access to a long-term engagement by providing comprehensive support for their daily IT operations, while allowing them to focus on their business KPIs.

Sapiens Property & Casualty Solutions

Sapiens Platform for Property & Casualty

The Sapiens Platform for Property& Casualty is an end-to-end, cloud-based platform with advanced digital and analytics capabilities. It can be implemented as a pre-integrated platform, or as standalone modules. The platform addresses all P&C carrier needs across all lines of business and distribution channels, offering a wealth of digital features. It is comprised of core (policy, billing and claims), data (advanced analytics) and digital (a full suite) solutions.

The cloud-based Sapiens DigitalSuite offers an end-to-end, holistic and seamless digital experience for P&C customers, agents, brokers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens' P&C core and is comprised of digital engagement and digital enablement components.

Sapiens Suites for Property and Casualty are tailored by region: North America versus EMEA & Rest of World.

For the North American market

Sapiens CoreSuite for Property & Casualty

Sapiens CoreSuite for Property & Casualty is comprised of three fully integrated, core components that can also be deployed stand-alone: Sapiens PolicyPro, Sapiens BillingPro and Sapiens ClaimsPro. CoreSuite is pre-integrated with additional components that can be selected, including business intelligence, reinsurance and digital solutions, as well as various interfaces. This modular, automated, highly customizable suite offers a single platform for personal, commercial and specialty lines of business (LoBs). This increases organizational efficiency by reducing manual effort, generates competitive advantages and saves costs.

Sapiens PolicyPro

The Sapiens' PolicyPro solutions for property & casualty come pre-integrated with the core system. They are easily integrated with existing and external systems and applications. The solutions manage the end-to-end policy administration lifecycle of an insurance contract, from initial quote, through rating and policy issuance. They also feature a complete range of policy issuance and amendment capabilities. Agents, underwriters and customers use the solutions to quote, issue and administer policies. The offerings provide comprehensive policy lifecycle support for all P&C lines of business.

Sapiens BillingPro

The Sapiens' billing solution for P&C enables carriers, MGAs and brokers to manage the full lifecycle of premium services, taxes and fees, along with commission billing, collection and disbursements. P&C carriers can integrate with third-party systems and data repositories, enjoy best-in-class usability and automate processes throughout the billing lifecycle.

Sapiens ClaimsPro

Sapiens' claims solutions for property & casualty provide simplified management and automated control of claims management handling and the settlement process. They offer intelligent, rules-driven workflow with effective claim assignment, ensuring faster cycle times, as well as rules-driven automatic claims payment.

EMEA and Rest of World

Sapiens IDITSuite for Non-life/General/Short Term Insurance

The Sapiens IDITSuite for Property & Casualty is a cloud-based, component-based, standalone software solution suite that offers policy, billing and claims and forms the core of the Sapiens Platform for Property & Casualty. IDITSuite supports all end-to-end core operations and processes for the non-life P&C market from inception, to renewal and claims. This pre-integrated, fully digital suite offers customer and agent portals, business intelligence and more. IDITSuite enables insurers to expand their offerings by testing new lines of business, products and services using our flexible product factory.

The suite is modular and can integrate with your ecosystem's components. Sapiens IDITSuite for Property & Casualty includes multiple lines of business in one policy for multiple insured objects and assets. It can support corporate agreements and master policy structures. IDITSuite is designed with growth and change in mind, with extensive multi-company, multi-branding, multi-country, multi-currency and multi-lingual capabilities. The IDITSuite management system is built on open technology and can be used across devices.

Also available in different parts of the world:

Diana Solution for Property & Casualty (Spain)

The Diana solution for Property & Casualty tailored for the Iberian market, empowers insurance companies with a product engine, as well as policy, billing, claims and reinsurance capabilities. A fourth-generation solution Diana supports all core operations and processes for the P&C market, and supports bank assurance, brokers and direct insurance. The suite is modular, flexible and customizable through module workshops. Diana ecosystem is being enhanced through new features in micro services technology, like group policy management and injury agreements.

Fully digital SCIP Core (DACH)

SCIP CORE is a flexible, high-performance, cloud-capable and easily extensible inventory management platform. It offers all essential processes for efficient contract and claims processing and can be flexibly configured and extended in a few weeks. SCIP CORE digitally enables end customers, agents, claim handlers by using extensive self-services in different interfaces and portals.

Tia Enterprise (Nordics)

Tia Enterprise is a component-based, software solution suite that offers policy, billing and claims. Tia Enterprise can be hosted on-prem or in the cloud and can be extended through an API layer to incorporate ecosystem solutions as well as a digital communications and enablement layer and advanced analytics/BI. Tia Enterprise supports all end-to-end core operations and processes for the non-life market from inception, to renewal and claims.

OASIS for MPL

OASIS is a fully integrated collection of components designed to embed core functionalities required in the MPL sector, including: underwriting, policy management, claims management, financial management, BI and predictive analytics. The component-based platform delivers maximum out of the box functionality and stationing which ensures OASIS can easily integrate within a legacy environment.

Sapiens Life, Pension & Annuity Solutions

Sapiens Platform for Life, Pension & Annuities

The Sapiens Platform for Life, Pension & Annuities is a modern, cloud-based, digital insurance platform that includes core, data and digital solutions. With the ability to deploy its offerings as a complete platform, or as standalone modules, Sapiens can address life providers' needs across all their lines of business and distribution channels. Our mature platform is cloud and API-based, and features a strong core and advanced analytics, as well as data enablement and full digital engagement capabilities.

Sapiens CoreSuite for Life, Pension & Annuities

Sapiens CoreSuite for Life, Pension & Annuities is designed to provide excellence in the administration of insurance business, facilitate digital transformation and fast time-to-value for digital strategies, and create greater efficiency via legacy consolidation. It offers insurers:

- A single platform for individual and group business and across protection, risk, savings and investment business.
- Transformation, enablement and execution for digital strategies supported by Cloud deployment.
- Greater efficiency via improved automation, user experience and system consolidation

Sapiens CoreSuite for Life, Pension & Annuities suite supports the end-to-end administration of group and individual life, annuities, pension and investment business – in a single system. The suite offers a 360-degree view of the customer from their policy administration system, across all distribution channels and communication streams.

Many insurers still use systems developed decades ago that cannot support today’s regulatory changes, digital marketplace and demanding customers. Too many manual processes can lead to errors that impact customer experience. Our unique conversion approach reduces the risks involved in migrating from existing legacy systems.

Complimentary modules are available in North America:

Sapiens UnderwritingPro for Life & Annuities

Sapiens UnderwritingPro for Life, Pension & Annuities is a web-based solution for automated underwriting and new business case management that is part of Sapiens’ solution set for life insurers. It speeds new business processes for insurance carriers and their channels, offering an intuitive user interface with critical updates and task assignments provided on a real-time dashboard. Sapiens UnderwritingPro enables underwriters and case managers to work on multiple cases simultaneously.

Sapiens ApplicationPro for Life & Annuities

Sapiens ApplicationPro for Life & Annuities is a digital insurance application software that helps carriers address critical business drivers, such as decreasing time-to-issue and reducing policy acquisition costs, all in an extremely intuitive and easy-to-use package. Carriers have a choice of a standalone eApplication system, or a more comprehensive solution that seamlessly integrates with Sapiens IllustrationPro for Life& Annuities and Sapiens UnderwritingPro for Life & Annuities .

Sapiens IllustrationPro for Life & Annuities

Sapiens IllustrationPro for Life & Annuities is a point-of-sale solution, offering responsive product illustrations from any device. ACORD®-compliant, it offers straight-through processing, from point-of-sale to application e-submission, supported by a needs analysis suite. IllustrationPro explains complex products in a compelling way. Its powerful calculation engines handle the most complex product illustrations, including the appropriate historical and hypothetical references.

Sapiens ConsolidationMaster for Life & Pension

Sapiens ConsolidationMaster is a purpose-built, end-to-end, legacy, portfolio-focused system with a unique migration methodology that deals with “dirty” data. The solution has over 500 product templates capable of supporting the compliant administration of legacy products in any language and regulatory jurisdiction. ConsolidationMaster is designed to significantly cut the costs that are commonly associated with legacy platforms.

Sapiens DigitalSuite Solutions

Sapiens DigitalSuite offers an end-to-end, holistic and seamless digital experience for customers, agents, brokers, risk managers, customer groups and third-party service providers. The suite is pre-integrated with Sapiens’ core solutions. The DigitalSuite is also available stand-alone, and can be easily integrated with 3rd party core and ecosystem solutions through an advanced API layer. This facilitates digital transformation and fast time-to-value for digital strategies. It enables life carriers to become engaged, agile organizations with increased sales opportunities.

Sapiens DigitalSuite was designed to enable its carrier customers to deliver on the future of user and customer expectations. DigitalSuite is an offering that can react to market changes, support flexible interaction with dynamic APIs and offer a modern user experience. Sapiens DigitalSuite features component-based architecture, built on modern technologies and customer-centric design.

Sapiens DigitalSuite is comprised of innovative digital modules, which can be used together or stand-alone, and content libraries to facilitate diverse customer journeys, omnichannel communications and include rich portal content: Sapiens AgentConnect, EmployerConnect and CustomerConnect.

All digital offerings are entirely supported in the cloud.

Sapiens Digital API Layer and Conductor

This highly scalable layer facilitates an open-communication, API-based platform that enables carriers to interact with insurtech companies, ecosystem technology providers and business partners. By enabling seamless interaction with any service under any technology, Sapiens' open architecture ensures that providers will easily choose the building blocks they need. They'll be able to easily define new APIs on the fly and seamlessly integrate all elements within their insurance ecosystem, to succeed today and prepare for the future.

Sapiens Customer Journey and Form Builder

Features journey and form builders, journey analytics and deployment management capabilities – enables business users to easily create and maintain digital journeys, using a low-code/no-code approach. This component empowers insurers with agility and fast time to market, based on its “one click to deploy” functionality. Also available are full versioning capabilities and an extendable UI components library.

Sapiens AgentConnect, and CustomerConnect

Are dynamic portals built to deliver the optimal experiences expected by customers, brokers, agents, employers, alike, providing a high level of personalization to meet the diversified, individual needs of customers.

Sapiens BotConnect and LiveConnect

Sapiens brings conversational messaging to the next level, making it highly efficient in engaging customers. Sapiens BotConnect (AI-based chatbot) and LiveConnect (Omni-channel live chat) are designed to cultivate and enhance conversational messaging by ensuring perfect handoffs between different channels and personas, which translates into one unified customer-centric and smooth experience for both customers and the reps that cater to their needs. Together, this duo of components greatly improves the operational efficiency, providing a better service level to end-customers, based on their channel of choice.

Sapiens PartnerHub and Partner Ecosystem

Sapiens is a global organization with over three decades of extensive experience in insurance innovation and technology. Sapiens seek out and identify the most relevant, advanced and innovative technology solutions for the insurance market. Sapiens connect third-party technology and insurtech solutions to our Sapiens PartnerHub, from where we make their offerings available to insurers for their own use, and for the use of their customers.

Sapiens Analytics and Data Platform

Sapiens offers its analytics solutions, across both Life and P&C businesses, which include: insightful dashboards, reporting and apps; and predictive analytics which utilize AI and machine learning, generates actionable insights based on different models across the insurance value chain. By integrating with our advanced analytics solution and data warehouse, we can quickly generate actionable insights, self-service business intelligence and data discovery capabilities.

Sapiens Reinsurance Solutions

Sapiens reinsurance solutions are comprehensive business and accounting systems, providing a superior management for all types of reinsurance contracts – treaty and facultative, and proportional and non-proportional. It enables insurers of all sizes to manage their entire range of reinsurance contracts and activities for all lines of business, including rich accounting functionality and reporting capabilities.

Sapiens' reinsurance solution enables full and flexible control of reinsurance processes, with built-in automation of contracts, calculations and processes. By incorporating fully automated functions adapted conveniently for your business procedures, Sapiens Reinsurance provides flexible and total financial control of your reinsurance processes, including complete support for all auditing requirements and statutory compliance.

The solutions are available in three flavors:

ReinsuranceMaster (in EMEA, APAC and for global insurers), *ReinsurancePro* (in N. America) which also produces schedule F automatically, and *Reinsurance GO* (N. America) which is designed to meet the ceded reinsurance processing needs of property & casualty providers, from calculating premium and claim cessions, to producing the data required for Schedule F.

Sapiens Workers' Compensation Offerings

Sapiens Platform for Workers' Compensation

Sapiens Platform for Workers' Compensation includes the Sapiens CoreSuite for Workers' Compensation, and comes pre-integrated with Sapiens DigitalSuite, including: Sapiens EmployerConnect a digital portal for employers and Sapiens Analytics and Data platform."

Sapiens CoreSuite for Workers' Compensation

Sapiens CoreSuite for Workers' Compensation offers larger carriers, administrators and state funds the technology solutions that enable them to adapt quickly to business and market conditions, offering high levels of accuracy and efficiency. The suite provides broad functionality throughout the entire insurance lifecycle for workers' compensation, via a core suite, as well as policy, claims and intelligence modules that can be deployed individually, or as an integrated solution. This suite can be purchased as an integrated offering, or standalone components: Sapiens PolicyPro and Sapiens ClaimsPro.

Sapiens GO for Workers' Compensation

Sapiens GO for Workers' Compensation was developed specifically for carriers, managing general agents (MGAs), self-insurance funds and third-party administrators. Sapiens GO can deliver a turnkey solution in just 120 days. With its streamlined user interface and advanced business features, the suite addresses critical objectives. This suite can be purchased as an integrated offering, or standalone components: Sapiens PolicyGO and Sapiens ClaimsGO for Workers' Compensation.

Sapiens Financial & Compliance Solutions

Sapiens' set of financial& compliance solutions comprised of both annual statement and insurance accounting software includes:

- Sapiens FinancialPro - accounting software designed for insurers to meet their unique requirements for cash, statutory and GAAP reporting, well as unique allocation and consolidation needs. It handles multi-basis accounting and inter-company transactions and facilitates the speed and accuracy of financial reporting.
- Sapiens Financial GO - offers small- and mid-sized insurers a solution for cash, statutory and GAAP reporting, as well as unique allocation and consolidation needs. Sapiens Financial GO manages and presents data to help insurance managers make informed decisions.
- Sapiens StatementPro - makes statement preparation faster and simpler by offering one-click navigation between statements, pages and form validations (cross-checks) to the pages they reference and offering one-step filing.
- Additionally, Sapiens offers Sapiens CheckPro and Sapiens reporting tools.

Sapiens Business Decision Management Solutions

Sapiens Decision is a complete decision management platform that places software development in the hands of the business domain, creating “citizen developers,” and enforces business logic across all enterprise applications. Decision effectively addresses the complexity of determining and then translating business logic – data, business rules and machine learning used to make business decisions – into operational code. The business side of the organization can model, validate, test and simulate the business logic required for all new processes using Sapiens Decision. The process takes days or weeks, instead of months or years. A rigorous, structured approach ensures accuracy, efficiency and consistency during modeling. The models may then be automatically generated and deployed as code into automated DevOps environments, ensuring that the software is fully aligned with the organization’s business needs.

Sapiens is currently focusing on the development and marketing of Sapiens Decision in the insurance and financial services market in North America and Western Europe, and we are building best practices where the scale and complexity of operations requires enterprise-grade technology that can easily be adapted as policies and business strategies rapidly evolve. Sapiens developed and market Sapiens Decision for several verticals, including the insurance industry, and leverage our industry knowledge and close relationships with our existing customers and partners. Decision targets multiple markets:

Sapiens Decision for Financial Institutions (including Consumer & Commercial Banking, Investment Banking, & Mortgage Banking)

Tailored to meet the needs of Consumer & Commercial Banking, Investment Banking and Mortgage Banking institutions addresses the cost of change. It enables banks to efficiently adapt their operations to the demands of digital transformation, changing regulations, customer demands and increasing competition, using model-driven development (MDD). The MDD approach, enables businesspeople to define business logic in easily understood models. The process takes days or weeks, instead of months or years. It enforces business logic across all enterprise applications.

Sapiens Decision for Insurance

Sapiens Decision for Insurance enables insurers to efficiently adapt their business operations to the demands of digital transformation, changing regulations, customer demands and increasing competition. It is currently used by a top-tier, P&C insurance company to implement process automation and effect digital transformation.

Sapiens Decision for Government

Sapiens Decision for Government provides the capability to automate manual processes, alleviates gaps coming from different roles and interpretations, and creates fully validated policy artifacts in a format that other roles in the organization can understand.

Sapiens Technology-Based Solutions

Sapiens eMerge

Sapiens eMerge is a rules-based, model-driven architecture that enables the creation of tailor-made, mission-critical core enterprise applications with little or no coding. Our technology is intended to allow customers to meet complex and unique requirements using a robust development platform. For example, we perform proxy porting for our customers in an efficient, cost effective manner with Sapiens eMerge.

Sapiens Services

Sapiens’ services modernize and automate processes for insurance providers and financial institutions around the globe, helping to create greater organizational efficiencies, reduce costs and provide a better end user experience. They can be divided into three main categories: **program delivery**, **value added services** and **cloud services**.

Sapiens has partnered with both Microsoft Azure and AWS to offer its solutions over private and public (single tenant) clouds. Sapiens' cloud deployment includes full infrastructure for operations, plus the option of choosing cloud-related cloud services delivered by Sapiens' experienced professional services team.

Sapiens delivery methodologies are typically based on Agile approach or a hybrid agile-waterfall approach that fits best some segments of our market. Sapiens also provides delivery tools and delivery performance indicators. Built on a solid foundation of insurance domain expertise, proven technology and a history of successful deployments, our organization assists clients in identifying and eliminating IT barriers to achieve business objectives.

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Benefits include:

- **Project delivery experience** – more than 35 years of field-proven project delivery of its core system solutions, based on best practices and accumulated experience.
- **System integration** – Sapiens helps its customers deploy modern solutions, while expertly integrating these solutions with their legacy environments that must be supported.
- **Global presence** – insurance and technology domain experts are located close to our customers to provide professional services.

Sapiens' implementation teams assist customers in building implementation plans, integrating Sapiens software solutions with their existing systems, and deploying specific requirements unique to each customer and installation. Sapiens' business services include API integration management and business intelligence (BI) and advanced analytics consolidation. Sapiens' cloud services offer ongoing production support and a 24/7 help desk.

Sapiens' service teams possess strong technology skills and industry expertise. The level of service and business understanding they provide contributes to the long-term success of our customers. This helps Sapiens develop strategic relationships with Sapiens' customers, enhances information exchange and deepens our understanding of the needs of companies within the industry.

Through Sapiens' service teams, Sapiens provides a wide scope of services and consultancy around Sapiens' solutions, both in the initial project implementation stage, as well as ongoing additional services. Many of Sapiens' customers also use Sapiens' services and expertise to assist them with various aspects of daily maintenance, ongoing system administration and the addition of new solution enhancements.

Sapiens sometimes partners with several system integration and consulting firms to achieve scalable, cost-effective implementations for our customers. Sapiens has developed an efficient, repeatable methodology that is closely aligned with the unique capabilities of our solutions.

The services offered by Sapiens (and its partners') teams include:

- Adding new lines of business and functional coverage to existing solutions running in production.
- Ongoing support services for managing and administering the solutions.
- Creating new functionalities, per specific requirements of our customers.
- Assisting with compliance for new regulations and legal requirements.

In addition, many of Sapiens' clients choose to enter into an ongoing maintenance and support contract with Sapiens. The terms of such a contract are usually twelve months and are renewed every year. A maintenance contract entitles the customer to technology upgrades (when made generally available) and technical support. Sapiens also offers introductory and advanced classes and training programs available at our offices and customer sites.

Some of Sapiens' offerings include:

Program delivery includes:

- *Project and program management* - Overall program planning, governance, PMO services and risk management
- *Training* - Training needs analysis and consulting, train-the-trainer, user training, and application configuration training.
- *Testing* - Test strategy consulting, design and planning, SIT / Functional UAT / Business UAT, migration testing, performance / scalability and load testing, security testing and testing automation.
- *Migration consulting*- Migration strategy consulting and planning, data extract and load, data cleansing and data reconciliation.
- *Development, implementation and integration* - Technical Solution Architecture, Analysis and Design, Development and Configuration, core system integration and project management.

Value added services are comprised of:

- *User acceptance testing (UAT)* - is different than system testing. UAT is a complementary stage which focuses on business processes, user's journeys, and acceptance criteria as outlined in the specifications.
- *Migration Services* – full ownership of the migration of systems from one system to another.
- *Analytics Services* – let Sapiens' experts help you build predictive models which are aligned and integrated into your insurance practices.

Cloud services include:

- *Hosting Infrastructure Services:* Virtual machines selection based on the applications architecture and performance requirement to ensure a value-for-money approach. Cloud services including, among others, network, business continuity and security.
- *Hosting IT Services:* continuous services that obviate the need for local IT involvement to maintain the infrastructure and includes: Operation Control Center (OCC) as a service, Security Operation Center (SOC) as a Service, Backup as a service, DBA as a service, DevOps as a service, Disaster Recovery (DR) as a service.
- *Applications Cloud Services:* extends the standard maintenance agreement to provide additional services for Sapiens' solutions based on specific customer needs, and may include any of the following: Extended maintenance and support - Customer layer/components defect handling and extended SLA, Application changes – setup / config / workflow / templates, Application operation – batches / release deployment / performance monitoring, Sapiens+ – support for non-Sapiens products (optional).

Sapiens' Competitive Landscape

Sapiens is focused on serving insurers. The market for core software solutions for the insurance industry is highly competitive and characterized by rapidly changing technologies, evolving industry standards and customer requirements, and frequent innovation. In addition, we offer a business decision management platform, mainly to financial services organizations.

Competitive Landscape for Sapiens Insurance Software Solutions

Sapiens' competitors in the insurance software solutions market differ from us based on size, geography and lines of business. Some of our competitors offer a full suite, while others offer only one module; some operate in specific (domestic) geographies, while others operate on a global basis. And delivery models vary, with some competitors keeping delivery in-house, using IT outsourcing (ITO), or business process outsourcing (BPO).

The insurance software solutions market is highly competitive and demanding. Maintaining a leading position is challenging because it requires:

- Development of new core insurance solutions, which necessitates a heavy R&D investment and in-depth knowledge of complex insurance environments
- Technology innovation to attract new customers, with rapid, technology-driven changes in the insurance business model and new propositions coming
- A global presence and the ability to support global insurance operations
- Ability to manage multiple partnerships, due to the changing landscape of insurers' ecosystems
- Extensive knowledge of regulatory requirements and how to fulfill them (they can be burdensome and require specific IT solutions)
- Continued support and development of the solutions entails a critical mass of customers that support an ongoing R&D investment
- Know-how of insurance system requirements and an ability to bridge between new systems and legacy technologies
- Enabling mission-critical operations that require experience, domain expertise and proven delivery capabilities to ensure success

The complex requirements of this market create a high barrier to entry for new players. As for existing players, these requirements have led to a marked increase in M&A transactions in the insurance software solutions sector, since small, local vendors have not been able to sustain growth without continuing to fund their R&D departments and following the globalization trend of their customers.

Sapiens believes that it is well-positioned to leverage its modern solutions, customer base and global presence to compete in this market and meet its challenges. In addition, our accumulated experience and expert teams allow us to provide a comprehensive response to the IT challenges of this market.

Different types of competitors include:

- Global software providers with their own IP
- Local/domestic software vendors with their own IP, operating in a designated geographic market and/or within a designated segment of the insurance industry
- BPO providers who offer end-to-end outsourcing of insurance carriers' business, including core software administration (although BPO providers want to buy comprehensive software platforms to serve as part of the BPO proposition from vendors and may seek to purchase our solutions for this purpose)

- Internal IT departments, who often prefer to develop solutions in-house
- New insurtech companies with niche solutions

Sapiens differentiates itself from its competitors via the following key factors:

- Sapiens offers cloud-based innovative and modern software solutions, with rich functionality and advanced, intuitive user interfaces, based on deep domain expertise and insurance know how
- Sapiens uses model-driven architecture that allows rapid deployment of the system, while reducing total cost of ownership
- Sapiens' solutions are built using an architecture that allows customers to implement the full solution or components, and readily integrate the solution or individual components into their existing IT landscape
- Strong and global partnership program, with established IT players and new insurtech companies, to ensure linkage to innovative technologies and new business models, as well as ongoing work to embed innovation into Sapiens' platforms
- Sapiens identifies technology trends and invest in adjusting our solutions to keep pace with today's frenetic evolutions
- Sapiens financial stability, and its large and growing global customer base, enables it to fund R&D investment and maintain the competitive advantage of its products. Sapiens is able to fund R&D investment and maintain the competitive advantage of its products, due to its large and growing customer base and financial stability
- Sapiens delivery methodology is based on extensive insurance industry experience and cooperation with large insurance companies globally. Sapiens track record over the past few years in developing a strong offshore development center is also a significant parameter in differentiating our abilities in the services space

Sapiens leverages its proven track record of successful delivery to help its customers deploy modern solutions, while integrating with their legacy environment (when that legacy environment must remain supported).

Competitive Landscape for Business Decision Management Solutions

Sapiens Decision is a pioneer in this disruptive market landscape. Since the introduction of its innovative approach to enterprise architecture to the market, it has identified only a small number of potential competitors.

Sapiens differentiates itself from its potential competitors through the following key factors:

- Sapiens believes that Sapiens Decision is the only solution (that is currently generally available and already in production) that offers a true separation of the business logic in a decision management system for large enterprises
- Sapiens Decision is unique in its proven ability to support complex environments, with a full audit trail and governance that is crucial for large financial services organizations
- Sapiens understands complex environments where Decision is deployed, due to its experience delivering complex, mission-critical solutions

Sapiens Sales and Marketing

Sapiens' main sales channel is direct sales, with a small portion of partner sales. Sapiens' sales team is spread across its regional offices in North America, the United Kingdom, Israel, India, Poland, the Nordics, Spain, Singapore, South Africa, Canada, Latvia and Germany. The direct sales force is geared to large organizations within the insurance and financial services industry.

Sapiens believes that its sales teams are sufficiently large to service its target regions – North America, the UK, Europe and South Africa – and to execute sales, while also being assisted by our presales, domain experts and marketing teams. We anticipate that Sapiens' sales team will leverage its proximity to customers and prospective clients to drive more business, and offer its services across its target markets.

Sapiens' customer success teams were focused on building ongoing relationships with existing customers during the past year, to maintain a high level of customer satisfaction and identify up-selling opportunities within these organizations. Sapiens believes that a high level of post-contract customer support is important to its continued success.

As part of its sales process, Sapiens typically sell a package that includes a license, implementation, customization and integration services, and training services. All of Sapiens' clients for whom it has deployed its solutions elect to enter into an ongoing maintenance and support contract with Sapiens. Sapiens aims to expand its distribution model to include more channel partners and system integrators, but it intends to maintain the direct sales model as its prime distribution channel.

Sapiens attends major industry trade shows (both physical and virtual) to improve its visibility and its market recognition. Additionally, Sapiens hosts client conferences– such as its annual Sapiens Summit/Client Conference, which went virtual in 2020 and 2021, and was in-person in North America in 2022. In 2023, Sapiens hosted two client conferences in Barcelona, Spain, and Tuscon, Arizona. In 2024 Sapiens plans to host its Annual North America summit in Austin, Texas. Sapiens continues investing in its web presence and digital marketing activities to generate leads and enhance our brand recognition. Sapiens maintains a blog channel and a podcast and also invests in its working relationships and advisory services within the global industry-analyst community.

Sapiens works together with standards providers– such as ACORD– to further enrich its offerings and provide its customers with comprehensive and innovative solutions that address the entire breadth of their business needs.

Magic Software

Magic Software is a global provider of: (i) software services and Information Technologies (“IT”) outsourcing software services; (ii) proprietary application development and business process integration platforms; (iii) selected packaged vertical software solutions; as well as (iv) cloud-based services for end to end digital transformation.

Magic Software's software technology is used by customers to develop, deploy and integrate on-premise, mobile and cloud-based business applications quickly and cost effectively. In addition, its technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment. Magic Software also provides selected verticals with a complete software solution and return on investment.

As part of its software services and IT outsourcing services, Magic Software offers to hundreds of its customers mainly in Israel and in North America an extensive portfolio of professional services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, integration projects, project management, software testing and quality assurance, engineering consulting (including supervision of engineering projects), support services, cloud, cyber, digital, data and DevOps, all according to the specific needs of the customer, and in accordance with the professional expertise required in each case with the goal to create significant value for our clients in managing, streamlining, accelerating and helping their businesses thrive.

Based on its technological capabilities and its specialists, Magic Software enables its clients to respond to rapidly evolving market needs and regulatory changes, while improving the efficiency of their core operations. Magic Software has approximately 3,628 employees, who serve its clients at any given time and whose skills and specialization are a significant source of competitive differentiation. Magic Software operates through a large network of independent software vendors, or ISVs, who we refer to as Magic Software Providers, or MSPs, and hundreds of system integrators, distributors, resellers, and consulting and OEM partners. Thousands of enterprises in approximately 50 countries use Magic Software's products and services.

Magic Software's Software Technology Platforms

Organizations across all industries are digitally transforming by leveraging software to automate and optimize mission critical business processes, enhance customer experiences, and drive competitive differentiation. Historically, organizations have principally relied on off-the-shelf packaged software and custom software solutions to operationalize and automate their businesses. Packaged software often fails to address unique use cases or to enable differentiation. It also requires organizations to adapt their business (processes, systems of record, etc.) to the software package, as opposed to adapting the software to their unique business needs. While traditional custom software solutions can be differentiated and tailored to meet strategic objectives, development requires a long, iterative, and cumbersome process, as well as costly integration that relies on scarce developer talent. Through its unified platform Magic Software enables organizations to differentiate themselves from their competition using a low-code approach, creating applications and workflows tailored to their unique business requirements.

Throughout our history, we have traditionally maintained two major lines of products, one is our application development platform, which today is known as Magic xpa Application Platform, an evolution of our original metadata-based development platform; and the second is our application integration platform, Magic xpi Integration Platform, originally introduced in 2003 under the name iBOLT. In December 2011, we acquired the AppBuilder development platform of BluePhoenix Solutions Ltd., a leading provider of value-driven legacy IT modernization solutions. AppBuilder is a comprehensive application development infrastructure used by many Fortune 1000 enterprises around the world. This enterprise application development environment is a powerful, model-driven tool that enables development teams to build, deploy, and maintain large-scale, custom-built business applications. On April 2019, we acquired the SmartUX development platform of PowWow Inc., a leading Low-Code enterprise mobile development application platform for citizen to professional developers to rapidly design, build, analyze, and run cross-platform mobile business applications.

Magic Software's low-code platforms employ an intuitive, visual interface and pre-built development modules that reduce the time required to build powerful and unique business applications and workflows. It is unified, reduces training times and dependencies on additional tools, and is built for enterprise-grade applications requiring high reliability, security, and scalability. Magic Software's platform automates the creation of forms, workflows, data structures, reports, user interfaces, and other software elements that would otherwise need to be manually coded. This functionality greatly reduces the iterative development process, allowing for real-time optimization and ultimately shortening the time it takes to design, build, and deploy applications.

Our customers leverage our technologies to apply the right automation approach for their specific use case. We believe our unified low-code platforms are a differentiator in the marketplace. We strive to deeply integrate our capabilities so that they are all interoperable and low-code making it easier and faster for our clients to address complex use cases, particularly those that involve multiple departments within an organization.

Magic Software's software technology platforms consist of:

- o **Magic xpa Application Platform** – a proprietary low-code application platform for developing and deploying Client Server/Mobile/Web business applications.
- o **AppBuilder Application Platform** – a proprietary low-code application platform for building, deploying, and maintaining high-end, mainframe-grade business applications.
- o **Magic xpi Integration Platform** – a proprietary low-code platform for application integration
- o **Magic xpi cloud native** – an environment configurations platform based on Kubernetes focuses on scalability, security and resilience.

- o **Magic SmartUX** – a proprietary low-code enterprise mobile development application platform for citizen to professional developers to rapidly design, build, analyze, and run cross-platform mobile business applications.
- o **FactoryEye** – a cloud-based platform pre-packaged but flexible end-to-end data management for manufacturers enabling smooth migration to Industry 4.0 smart factories. Real-time factory floor visibility and optimization is provided as part of the end-to-end visibility to maximize production performance.
- o **Magic Data Management and Analytics Platform** – a cloud-based pre-packaged but flexible end-to-end data management platform for all verticals enabling smooth digital transformation and full organizational business intelligence

Magic Software's Vertical Software Packages

Magic Software's vertical packaged software solutions include:

- o **Clicks™** – offered by its Roshtov subsidiary, Clicks is a proprietary comprehensive core software solution for medical record information management systems, used in the design and management of patient-file for managed care and large-scale healthcare providers. The platform is connected to each provider clinical, administrative and financial data base system, residing at the provider's central computer, and allows immediate analysis of complex data with potentially real-time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.
- o **Leap™** – offered by its FTS subsidiary, Leap is a proprietary comprehensive core software solution for BSS, including convergent charging, billing, customer management, policy control, mobile money and payment software solutions for the telecommunications, content, Machine to Machine/Internet of Things or M2M/IoT, payment and other industries.
- o **Hermes Cargo** – offered by its Hermes Logistics Technologies Ltd. subsidiary, the Hermes Air Cargo Management System is a proprietary, state-of-the-art, packaged software solution for managing air cargo ground handling. Our Hermes Solution covers all aspects of cargo handling, from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods and special handling, tracking and tracing, security and billing. Customers benefit through faster processing and more accurate billing, reporting and ultimately enhanced revenue. The Hermes Solution is delivered on a licensed or fully hosted basis. Hermes recently supplemented its offering with the Hermes Business Intelligence (HBI) solution, adding unprecedented data analysis capabilities and management-decision support tools.
- o **HR Pulse** – offered by its Pilat NAI, Inc. and Pilat Europe Ltd. subsidiaries, Pulse (now in its 10th release) is a proprietary tool for the creation of customizable HCM solutions quickly and affordably. It has been used by Pilat to create products, such as Pilat Frist and Pilat Professional, that provide “out of the box” SaaS solutions for organizations that implement Continuous Performance and/or Talent Management.
- o **MBS Solution** – offered by its Complete Business Solutions Ltd. subsidiary, MBS Solution is a proprietary comprehensive core system for managing TV broadcast channels.
- o **Nativ** – offered by its Menarva Ltd. subsidiary, Nativ is a proprietary comprehensive core system for management of rehabilitation centers.
- o **Mobisale** – offered by its Mobisoft Ltd. subsidiary, Mobisale is a proprietary comprehensive core system for sales and distribution field activities for consumer goods manufacturers and wholesalers.

Magic Software's Professional Software and IT Services

Magic Software's global software professional services offerings include a vast portfolio of professional services and IT outsourcing services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, support services, digital, DevOps (Development & Operations), Mobile, Open source, embedded systems and IoT devices, advanced algorithms for AI, Big Data and Analytical BI, M/F, security & cyber, cloud computing for deployment of highly available and massively-scalable applications and APIs and supplemental IT outsourcing services to a wide variety of companies, including Fortune 1000 companies, all in accordance with the professional expertise required, in each case allowing us to create significant value for our clients in managing, streamlining, accelerating and making their businesses thrive. The talents we provide generally supplement in-house capabilities of our customers. We have extensive and proven experience with virtually all types of telecom infrastructure technologies in wireless and wire-line as well as in the areas of infrastructure design and delivery, application development, project management, technology planning and implementation services.

Magic Software obtained substantial experience in end-to-end development of high-end software solutions, beginning with collection and analysis of system requirements, continuing with architecture specifications and setup, to software implementation, component integration and testing. It takes the time to truly learn its customers' business goals and choose the most appropriate technologies, architecture and approaches for each project, so we can consistently provide effective and efficient solutions. Our research and development teams are at the technological forefront, constantly learning and developing. They work alongside experts from the widest range of fields and disciplines. From concept to implementation, from application of the ideas of startups requiring the early development of an application or a device, to somewhat larger, more established enterprises, vendors or system houses who need our team of experts to take full responsibility for the development of their systems and products. With our ability to draw on our pool of resources, comprised of hundreds of highly trained, skilled, educated and flexible engineers, we adhere to timelines and budget and work in full transparency with our customers every step of the way to create a tailor-made and cost-effective solution to answer all of our customers' unique needs.

Magic Software IT services subsidiaries consist of:

- Coretech Consulting Group LLC
- Fusion Solutions LLC
- Xsell Resources Inc.
- AllStates Consulting Services LLC
- Futurewave Systems, Inc.
- NetEffects, Inc.
- The GoodKind Group LLC.
- CommIT Group
- Comblack IT Ltd
- Infinigy Solutions
- Shavit Software Ltd.
- OnTarget Group Inc
- Aptonet Inc

- Stockell information systems
- EnableIT LLC
- Appush Ltd (formerly Vidstart Ltd)
- K.M.T. (M.H.) Technologies Communication Computer Ltd

Magic Software's Partnerships and Alliances

Magic Software continues to build on its existing strategic partnerships that include partnerships with Oracle, JD Edwards, SAP, Salesforce.com, Microsoft, AWS, GCP, IBM and SugarCRM to enhance its mobile, integration and cloud offerings.

In May 2020, Magic Software's CommIT Group achieved AmazonAWS SaaS Competency status. AWS SaaS Competency is designated to help customers find top AWS consulting partners with deep specialization and experience in designing and building software-as-a-service solutions on AWS. Organizations are interested in software that is easy to use, implement, and operate. They are looking to reduce time-to-value and obtain access to innovative product features and flexible software procurement on a consumption or contractual basis. AWS SaaS Competency Partners follow Amazon Web Services (AWS) best practices for designing and building SaaS solutions through their professional services practices. To qualify for the AWS SaaS Competency designation, organizations have undergone rigorous technical validation by AWS Partner Solutions Architects and demonstrated proven customer success.

In November 2023, our CommIT group was awarded with AWS System Integrator Partner of the Year in Israel for 2023 in the field of integration, specialized services, and consulting (System Integrator). This award reflects Commit's expertise and innovation in leveraging AWS technologies to deliver comprehensive and effective solutions for its clients. For the third time in four years, Commit has been honored by AWS, previously earning accolades as Partner of the Year in the Public Sector and Rising Star of the Year. Commit's expertise plays a pivotal role in facilitating its clients' seamless migration to the cloud, optimizing workloads, and implementing innovative strategies such as cost optimization. The proven capabilities of Commit's cloud experts encompass architecture services, migration execution, modernization processes for existing systems, and the establishment of new cloud environments, with specialization in SaaS, IoT, Cyber, Big Data, AI that result in substantial cost savings and cutting-edge cloud applications and services development to its clients.

In April 2024, our CommIT Group was awarded with Google Cloud Sales Partner of the Year in Israel for 2023. This highly regarded award was presented to Commit for its significant contribution to promoting unique innovation and building successful integrated solutions for its Google Cloud customers. This prestigious award recognizes Commit's contribution as a leading Google Cloud partner, demonstrating unique and outstanding positive results to Google Cloud's partner and sales team. Commit's win of this award joins the previous recognition of four of Commit's team members as "Google Cloud Partner All-Stars for 2023" in the Marketing, Sales, and Solutions Engineering classifications. Commit, is a Premier Partner for Google Cloud in the Sell Engagement Model, which provides services and technology solutions to Google Cloud customers. CommIT has recruited more than 100 new customers in Israel to Google Cloud over the past year alone. Over the years, and particularly over the past year, Commit has helped many customers move to Google Cloud, streamline cloud workloads, save cloud usage costs considerably, and develop new cloud-based apps and services. One of Commit's specialties is assisting in the comprehensive integration of complex cases and maximizing the optimization of existing cloud capabilities using Google Cloud's advanced generative AI capabilities.

In recent years, Commit has successfully led, developed and produced many SaaS solutions on AWS, Azure and GCP, for companies across many business sectors, including high-tech and startups, industrial and retail, and insurance and finance. CommIT concluded 2023 with a 50% growth in cloud customers and a 150% increase in the number of cloud experts it employs, which amounts to over 200. Its unique, flexible R&D model, which provides complete flexibility in determining the mix of experts, allows for full control of budgets and schedules throughout the development project. In this framework, We accompany our clients in their digital journey and in their entry into the SaaS world, providing design and build services for application environments or migration services for applications from existing models to cloud SaaS models. These processes require software architecture, construction, and software development from both Digital and SaaS, all of which take into account performance aspects, information security, scalability, infrastructure monitoring, customer experience and billing. Achieving AWS SaaS Competency status allows us to expand our business offering and even accompany the organizational change for customers who are in the process of transitioning to SaaS.

Magic Software's Industry Overview

In recent years, the number of available enterprise applications has grown significantly which has led information system complexity within many organizations to a level that has obstructed business progress and evolution, reduced business agility and led to significantly higher costs. We believe this complexity will continue to increase in the future. Although it is not unusual for organizations to operate multiple applications, systems and platforms that were created utilizing disparate programming languages, the complexity of these environments typically reduces an organization's operating flexibility, hinders decision-making processes and leads to costly inefficiencies and redundancies. When organizations seek to swiftly change, update and upgrade IT assets to support new business processes or to cope with changes in business and regulatory environments, they often find that the introduction and integration of new or upgraded business applications is more complex than expected, requires significant implementation resources, takes a long time to implement and is costly. The proliferation of smartphones and mobile platforms necessitates device-independent and future-proof business solutions for fast, simple, and cost-effective mobile deployment. In addition, new cloud computing technologies present enterprises with an opportunity to realize greater agility and meaningful cost savings to businesses, creating a growing need for further changes to enterprises' IT applications and systems.

The pace of digital transformation is also accelerating at companies all around the world. Customers are increasingly demanding an all-digital experience from the companies they do business with. They seek instant gratification through real-time updates or instant customer service without having to talk to or wait for other human beings. Employees are also pushing for a more digital experience in their workplaces. The confluence of these internal and external forces is causing companies of all sizes to put digital transformation goals at the top of the agenda. It is becoming clearer that companies will need to embrace and prioritize the creation of a digital operating environment to gain a competitive edge and be able to recruit and maintain a talented employee base.

Manual coding and application development is a complex and time-consuming process with an end result that is not guaranteed. The process requires constant iteration as bugs are discovered and new features are integrated. In addition, the communication gap and general disconnect between developers and end-users are critical shortcomings of manual coding that results in business applications that are less than ideally designed. Many of these problems can be addressed by low-code and no-code development platforms. The enterprise application development software market consists of several application development sub-segments and includes large dominant players such as IBM, Microsoft, Oracle, Salesforce, HP, CA Technologies and Compuware as well as a large number of highly specialized vendors, with focused capabilities for specific vertical markets. Huge backlogs of enterprise app development work and growing demand for apps coupled with shortage and expense of skilled programmers, is increasingly leading enterprises to turn to low-code/no-code application development platforms that democratize the development process and give business users the ability to develop applications themselves with minimal or no assistance from IT. Through the adoption of business applications, these business users are increasingly looking for ways to automate manual workflows and become more efficient and effective by reallocating their time to solving more complex business problems. Even IT resources and developers are using low-code development tools to increase their development speed and reduce backlog. a growing market for low-code/no-code development platforms.

Although the market for low-code development platforms is not new by any means, it has certainly started to gain more traction over the past couple of years and is expected to continue its strong growth due to continued demand for applications and a shortage of skilled developers. Low-code development is a natural evolution of rising abstraction levels in application development, which will eventually lead to viable cross-enterprise, highly scalable citizen development and composition of applications. According to market analysts spending on low-code development technologies (excluding RPA) is expected to expand to more than \$18 billion in 2026, with a CAGR of more than 20%. The increasing need of digitalization and maturity of agile DevOps practices are expected to enhance the use of low-code development platform market across the globe. Web application is considered as a face of an organization and by using the low-code development platform organizations can roll out user-defined web-based applications quickly. Instead of writing the programming language for the development of web-based applications, employees with less development experience can also create sophisticated applications. For those who has relevant experience, this platform can ease out the daily work chores and can even help them create more custom web-based applications by integrating already existing digital ecosystems. North America has the presence of several prominent market players delivering low-code development platform and services to all end users in the region. The US and Canada both have strong economic conditions and are expected to be major contributors to the growth of the low-code development platform market. The geographical presence, significant research and development (R&D) activities, partnerships, and acquisitions and mergers are the major factors for the deployment of low-code development platform and services.

The IT services segment of the market is comprised of a broad array of specific segments such as infrastructure design and delivery, application development, technology consulting planning and implementation services, support services and supplemental outsourcing services. In addition, IT professional services include quality assurance, product engineering services and process consulting. The IT services segment is also undergoing a profound transition, with some key trends that have accelerated recently. Growing demand for mobile and cloud-based applications as well as Big Data solutions also entails more complex IT development and integration projects which management and implementation require a higher level of expertise. In addition, the typical software-based projects of IT consulting have been gradually shifting towards software and technology-driven solutions that can be embedded into clients' systems, providing ongoing engagement services. This transition has been accentuated by an underlying change in IT services sourcing processes: the need for a faster go-to-market process as well as constrained resources in IT departments is resulting in greater influence by specific business units on the purchasing decision as opposed to the traditional sourcing process. The traditional outsourcing business model of capacity on demand is also transitioning towards a model of capability on demand. Information technology service buyers are increasingly looking at outcome-driven managed services with a tighter integration between software, service and infrastructure.

We have identified the following trends that are relevant to the markets Magic Software operates in:

- **Increasingly complex business integration:** In recent years, enterprises operate multiple applications and platforms, using various programming languages, resulting in complex enterprise information systems. Such systems and the ability to swiftly change, update, and upgrade them to support new business processes are crucial to the enterprise's ability to cope with changes in the business, economic and regulatory environment. However, the introduction and integration of new business applications is complex, requires significant time and human resources and entails significant and often unpredicted costs. Therefore, enterprises are in need of solutions that will facilitate the rapid and seamless deployment of business applications.
- **Reusing IT assets/enterprise applications:** In an increasingly dynamic technology, business and economic environment, organizations face mounting pressure to continue to leverage their large IT investments in enterprise applications, such as ERP and CRM, while increasing their ability to change business processes and support new ones. Tools to support lightweight yet rapid, iterative and modular development methodologies, reusable architectures and application life-cycle management are primary drivers for spending on application development worldwide.
- **Enterprise mobility:** With the proliferation of smartphones and mobile platforms that support enterprise mobility, enterprise users now expect instant access to real-time information, a rich user experience, seamless integration with various enterprise systems and support to multiple mobile devices. As such, enterprises need to be able to develop device-independent and robust business solutions for fast and cost-effective mobile deployment.
- **Cloud, Platform-as-a-Service and Software-as-a-Service:** Cloud, Platform-as-a-Service (PaaS) and Software-as-a-Service (SaaS) are each becoming a well-established phenomenon in some areas of enterprise IT. Cloud-hosted applications continue to grow as alternatives to internally managed systems as they deliver greater agility and meaningful cost savings to businesses. In addition, fast time-to-deployment, low cost-of-entry, and adoption of pay-as-you-go models drive growing adoption of SaaS applications. In turn, SaaS applications enable the rapid construction, deployment and management of some custom-built applications accessed as a service in the cloud. With more SaaS deployments, the need for integration tools that bridge the cloud apps with on-premise application increases.

- **Big Data:** The amount of digital information that is being generated by enterprises each year, across a number of diverse data sources and formats, is growing rapidly. Enterprises are required to retain, process and analyze data to attain meaningful insights and gain competitive advantages, and therefore require versatile and flexible tools in order to quickly and reliably process these increasingly large amounts of data.
- **IT Consulting:** The typical software-based projects of IT consulting have been gradually shifting towards software and technology-driven solutions that can be embedded into clients' systems, providing ongoing engagement services.
- **Sourcing processes:** The need for a faster go-to-market process as well as constrained resources in IT departments is resulting in greater influence by specific business units on the purchasing decision as opposed to the traditional sourcing process. The traditional outsourcing business model of capacity on demand is also transitioning towards a model of capability on demand. Information technology service buyers are increasingly looking at outcome-driven managed services with a tighter integration between software, service and infrastructure.
- **Mobility & IT skills shortage:** Growth in mobility skills demand is outpacing organizations' ability to keep up, resulting in mobile strategists facing a skills shortage across the entire mobility ecosystem, with mobile application development skills in greatest demand. Poor availability of skilled staff is driving mobile strategists to outsource many functions across the mobility ecosystem, including application development and testing services. The increasing mobility skills gap will force mobile strategists to use a multifaceted application development and delivery approach.

Magic Software's Software Solutions

Magic Software's software solutions enable enterprises to accelerate the planning, development, deployment and integration of on-premise, mobile and cloud business applications that can be rapidly customized to meet current and future needs. Its software solutions and complementary professional services empower customers to dramatically improve their business performance and return on investment by enabling the cost-effective and rapid delivery, integration and mobilization of business applications, systems and databases. Its technology and solutions are especially in demand when time-to-market considerations are critical, budgets are tight, and integration is required with multiple platforms or applications, databases or existing systems and business processes, as well as for RIA and SaaS applications. Its technology also provides the option to deploy our software capabilities in the cloud, hosted in a web services cloud computing environment. We believe these capabilities provide organizations with a faster deployment path and lower total cost of ownership. Magic Software's technology also allows developers to stage multiple applications before going live in production.

Development communities are facing high complexity, cost and extended pay-back periods in order to deliver cloud, RIAs, mobile and SaaS applications. Magic xpa, AppBuilder, Magic SmartUX, Magic xpi, Magic FactoryEye, and Magic's Data Management and Analytics platform all provide MSPs with the ability to rapidly build integrated applications in a more productive manner, deploy them in multiple modes and architectures as needed, lower IT maintenance costs and speed time-to-market. Magic Software's solutions are comprehensive and industry proven. These technologies can be applied to the entire software development market, from the implementation of micro-vertical solutions, through tactical application modernization and process automation solutions, to enterprise spanning service-oriented architecture, or SOA, migrations and composite applications initiatives. Unlike most competing platforms, Magic Software offers a coherent and unified toolset based on the same proven metadata driven and rules-based declarative technology. Its low-code, metadata platforms consist of pre-compiled and pre-written technical and administrative functions, which are essentially ready-made business application coding that enables developers to bypass the intensive technical code-writing stage of application development and integration, concentrate on building the correct logic for their apps and move quickly and efficiently to deployment. Through the use of metadata-driven platforms such as Magic xpa, AppBuilder, Magic SmartUX, Magic xpi, Magic's Data Management and Analytics platform and Magic FactoryEye, software vendors and enterprise customers can experience unprecedented cost savings through fast and easy implementation and reduced project risk.

Magic Software's software technology solutions include application platforms for developing and deploying specialized and high-end large-scale business applications and integration platforms that allow the integration and interoperability of diverse solutions, applications and systems in a quick and efficient manner. These solutions enable our customers to improve their business performance and return on investment by supporting the affordable and rapid delivery and integration of business applications, systems and databases. Using our software solutions, enterprises and ISVs can accelerate time-to-market by rapidly building integrated solutions, deploying them in multiple environments while leveraging existing IT resources. In addition, our solutions are scalable and platform-agnostic, enabling our customers to build solutions by specifying their business logic requirements in a commonly used language rather than in computer code, and to benefit from seamless platform upgrades and cross-platform functionality without the need to re-write applications. Its technology also enables future-proof protection and supports current market trends such as the development of mobile applications that can be deployed on a variety of smartphones and tablets, and cloud environments. In addition, we also offer a variety of vertical-targeted products that are focused on the needs and requirements of specific growing markets. Certain of these products were developed utilizing our application development platform.

Magic Software sells its solutions globally through its own direct sales representatives and offices and through a broad sales distribution network, including independent country distributors, independent service vendors that use our technology to develop and sell solutions to their customers, and system integrators. Magic Software also offers software maintenance, support, training, and consulting services in connection with our products, thus aiding the successful implementation of projects and assuring successful operation of the platforms once installed. We sell our integration solutions to customers using specific popular software applications, such as SAP, Salesforce.com, IBM i (AS/400), Oracle JD Edwards, Microsoft SharePoint, Microsoft Dynamics, SugarCRM and other eco-systems. As such, we enjoy a well-diversified client base across geographies and industries including oil & gas companies, telecommunications groups, financial institutions, healthcare providers, industrial companies, public institutions and international agencies.

The underlying principles and purpose of our technology are to provide:

- **Simplicity** – the use of code-free/low code development tools instead of hard coding and multiple programming languages to solve critical and complex challenges;
- **Business focus** – the use of pre-compiled business logic and components eliminates repetitive, low level technical and coding tasks;
- **Comprehensiveness** – the use of a comprehensive development and deployment platform offers a full end-to-end development, deployment and integration capability;
- **Automation of mundane tasks** – to accelerate development and maintenance and reduce risk; and
- **Interoperability** – to support business logic across multiple hardware and software platforms, operating systems and geographies.

Magic Software offers three complementary application platforms that address the wide spectrum of composite applications, Magic xpa, Magic SmartUX and AppBuilder. Our Magic xpi integration platform, Magic FactoryEye and Magic's Data Management and Analytics platform deliver fast and simple integration and orchestration of business processes and applications. Our customers operate in a wide variety of industries, including financial services, life sciences, government, telecommunications, energy and manufacturing.

Magic xpa Application Platform

Magic xpa Application Platform, our metadata driven application platform, provides a simple and unified, low code and cost-effective development and deployment environment that lets organizations and MSPs quickly create user-friendly, enterprise-grade, multi-channel mobile and desktop business app that employ the latest advanced functionalities and technologies. The Magic xpa Application Platform, formerly named uniPaaS, was first released in 2008 and is an evolution of our original eDeveloper product, a graphical, rules-based and event-driven framework that offered a pre-compiled engine for database business tasks and a wide variety of generic runtime services and functions which was released in 2001.

Magic Software has continually enhanced our Magic xpa application platform to respond to major market trends such as the growing demand for cloud-based offerings including Rich Internet Applications (RIA), mobile applications and SaaS. Accordingly, we have added new functionalities and extensions to our application platform, with the objective of enabling the development of RIA, SaaS, mobile and cloud-enabled applications. SaaS is a business and technical model for delivering software applications, similar to a phone or cable TV model, in which the software applications are installed and hosted in dedicated data centers and users subscribe to these centers and use the applications over an internet connection. This model requires the ability to deliver RIA. Magic xpa is a comprehensive RIA platform. It uses a single development paradigm that handles all ends of the application development and deployment process including client and server partitioning and the inter-communicating layers.

Magic xpa offers customers the power to choose how they deploy their applications, whether full client or web; on-premise or on-demand; in the cloud or behind the corporate firewall; software or mobile or SaaS; global or local. Our Magic xpa Application Platform complies with event driven and service oriented architectural principles. By offering technology transparency, this product allows customers to focus on their business requirements rather than technological means. The Magic xpa single development paradigm significantly reduces the time and costs associated with the development and deployment of cloud-based applications, including RIAs, mobile and SaaS. In addition, application owners can leverage their initial investment when moving from full client mode to cloud mode, and modify these choices as the situation requires. Enterprises can use cloud-based Magic xpa applications in a SaaS model and still maintain their databases in the privacy of their own data centers. It also supports most hardware and operating system environments such as Windows, Unix, Linux and AS/400, as well as multiple databases and is interoperable with .NET and Java technologies.

Magic xpa can be applied to the full range of software development, from the implementation of micro-vertical solutions, through tactical application modernization and process automation solutions, to enterprise spanning SOA migrations and composite applications initiatives. Unlike most competing platforms, we offer a coherent and unified toolset based on the same proven metadata driven and rules based declarative technology, resulting in increased cost savings through fast and easy implementation and reduced project risk.

Magic xpa enables organizations to differentiate themselves from their competition through software-enabled digital transformation. With our platform, organizations can rapidly and easily design, build and implement powerful, enterprise-grade custom applications through our intuitive, visual interface, with little or no coding required. Our Solution ensures that applications developed on our platform can be immediately and natively deployed across a full range of mobile and desktop devices with no additional customization, including desktop web browsers, tablets and mobile phones. We also enable organizations to easily modify and enhance applications and automatically disseminate these updates across device types to ensure that all users benefit from the most up-to-date functionality.

Key benefits of our platform include:

- **Powerful applications to solve critical and complex challenges.** At the core of our platform is an advanced engine that enables the modeling, modification and management of complex processes and business rules. Our heritage provides us with this differentiated understanding of complex processes, and we have incorporated that expertise into our platform to enable the development of powerful applications. Organizations have used our platform to launch new business lines, build large procurement systems, manage retail store layouts, conduct predictive maintenance on field equipment and manage trading platforms, among a range of other use cases.
- **Rapid and simple innovation through our powerful platform.** Our platform employs a low-code, intuitive, visual interface and pre-built development modules that reduce the time required to build powerful and unique applications. Our platform automates the creation of forms, data flows, records, reports and other software elements that would otherwise need to be manually coded or configured. This functionality greatly reduces the iterative development process, allowing for real-time application optimization and ultimately shortening the time from idea to deployment. In turn, organizations can better leverage scarce and costly developer talent to accomplish more digital transformation objectives.

- **Build once, deploy everywhere.** Our technology allows developers to build an application once and use it everywhere with the consistency of experience and optimal performance levels that users expect. Applications developed on our platform can be immediately and natively deployed across a full range of mobile and desktop devices with no additional customization, including desktop web browsers, tablets and mobile phones. We also enable organizations to easily modify and enhance applications and automatically disseminate these updates across device types to ensure all users benefit from the most up-to-date functionality.
- **Deployment flexibility to serve customer needs.** Our platform can be installed in any cloud or on-premises, with organizations able to access the same functionality and data sources in all cases. Our flexible deployment model also preserves a seamless path to future cloud deployments for organizations initially choosing on-premises for their most sensitive workloads.

Magic Software's approach to digital transformation goes beyond simply enabling organizations to build custom applications fast. We empower decision makers to reimagine their products, services, processes and customer interactions with software by removing much of the complexity and many of the challenges associated with traditional approaches to software development. Because we make application development easy, organizations can build specific and competitively differentiated functionality into applications to deliver enhanced user experiences and streamlined business operations.

In 2020, Magic Software significantly enhanced its new Angular based web client capabilities, invested more resources in the overall product stability, provided GIT version control capability as an integral part of expanding its CI/CD overall capabilities, as well as enhanced its compare and merge functionality under its xpa 4.7 release.

In 2021 and during 2022, Magic Software moved its Magic xpa platform to be a cloud native platform deployed by a dockers container, thereby opening the door to its customer to take its applications to be full SaaS products.

AppBuilder Application Platform

AppBuilder, a platform we acquired in December 2011, is a proprietary development environment used for managing, maintaining and reusing complicated applications needed by large businesses. It provides the infrastructure for enterprises worldwide, across several industries, with applications running millions of transactions daily on legacy systems. Enterprises using AppBuilder can build, deploy and maintain large-scale custom-built business applications for years without being dependent on any particular technology. The AppBuilder deployment environments include IBM mainframe, Unix, Linux and Windows. AppBuilder is intended to increase productivity and agility in the creation and deployment of enterprise class computing.

AppBuilder follows the 4GL development paradigm to help enterprises focus on the business needs and definition and overlook technical hurdles. AppBuilder developers define the business roles and prior to deployment the code is generated from the development environment to the required run time environment. Several large MSPs have utilized AppBuilder to build state of the art applications that are deployed through many large customers.

AppBuilder implements a model driven architecture approach to application development. It provides the ability to design an application at the business modeling level and generate forward to an application. AppBuilder has a platform-independent, business-rules language that enables generation to multiple platforms. It is possible to generate the client part of an application as Java and the server part as COBOL. As businesses change, the server part can be generated as Java without changing the application logic. Only a simple configuration option needs to be changed.

AppBuilder contains everything a development environment needs to create any type of simple or complex business application with platform-independent functionality, including:

- System administration security controls for scope and permissions;
- Migration, testing, and deployment functions;
- Architecture-independent development;
- An integrated toolset for designing, developing, and deploying applications;
- Object-based components managed from host, server, or client repositories;
- Support for Java/J2EE, COBOL, C#, and C programming languages;
- An efficient, cross-platform code generation facility;
- Ready-to-use business logic and libraries;
- A remote prepare facility for mainframe development;
- Multiple language user interface support; and
- DBCS support.

Magic xpi Integration Platform

We believe data is the most valuable competitive asset today as companies increasingly pursue digital transformation initiatives to modernize their businesses. Enormous amounts of data are being generated by people, applications, and devices worldwide. Enterprises are seeking to connect data across their various applications, systems, and IT environments in order to become data-driven businesses. Understanding and connecting these data assets as well as migrating workloads to the cloud, enables superior insights across the business organization, better service of customers, automation of supply chains, and the democratization of secure, governed data access for all employees.

The rise of cloud computing, low-cost data storage and the proliferation of applications that generate and access data, combined with the increasing volume of data from mobile, social and IoT, is resulting in an explosion of the volume, variety, and velocity of data. This new data creates opportunities to generate greater business insights and pursue new market opportunities, but is overwhelming for organizations to manage, aggregate, and normalize. As enterprises undertake the massive transition to cloud, we believe a majority of their workloads will remain on-premises for the foreseeable future due to the mission-critical processes they support. The complexity of this hybrid world will be further exacerbated as enterprises also employ multi-cloud strategies. As a result, we expect enterprises will require new technologies purpose-built to connect, analyze, manage, and normalize data anywhere it resides using modern, cloud-native architectures that can seamlessly be deployed in any IT environment.

Magic Software's Magic xpi integration platform (an evolution of its original and formerly branded iBOLT platform, launched in 2003) is a graphical, wizard-based code-free solution delivering fast and simple integration and orchestration of business processes and applications. Magic xpi allows businesses to more easily view, access, and leverage their mission-critical information, delivering true enterprise application integration, or EAI, business process management, or BPM, and SOA infrastructure. Increasing the usability and life span of existing legacy and other IT systems, Magic xpi allows fast EAI, development and customization of diverse applications, systems and databases, assuring rapid return on invested capital and time-to-market, increased profitability and customer satisfaction.

Magic xpi allows the integration and interoperability of diverse solutions, including legacy applications, in a quick and efficient manner. In January 2010, we released Magic xpi 3.2 and since then we have continued to develop the Magic xpi channel. We entered into agreements with additional system integrators, consultancies and service providers, who acquired Magic xpi skills and offer Magic xpi licenses and related services to their customers. We also offer special editions of Magic xpi with optimized and certified connectors for specific enterprise application vendor ecosystems, such as SAP, Oracle JD Edwards, Microsoft SharePoint and Salesforce.com. These special editions contain specific features and pricing tailored for these market sectors.

Data engineers, Extract-Transform-Load (ETL) developers, and citizen integrators have the ability to use our platform to ingest, transform and integrate data spanning departmental to enterprise scale workloads. These workloads include diverse and distributed data sources in multi-cloud, hybrid environments. The breadth and depth of our data integration capabilities accelerate the aggregation and processing of data to ready it for analytics, data science and enterprise reporting initiatives. Leveraging a simple graphical design experience, users can develop workloads across ETL, Extract-Load-Transform (ELT), real-time and streaming data integration patterns. Our platform is designed to integrate structured and unstructured data across on-premises and cloud-native applications, databases, business intelligence tools, data modeling tools, data lakes, data warehouses, mainframes, messaging systems, file systems and IoT devices. Our data-lake architecture allows data stewards and business analysts to create an authoritative single-source view of all business-critical data from internal and external sources across multiple data domains, including customers, locations, assets, and employees and many other domain types.

Magic Software's heritage as a veteran player in the integration market provides it with a differentiated understanding and ability to automate complex processes, and Magic Software has incorporated that expertise into our platform to enable the development of powerful business software. Magic xpi can leverage a complete stack of automation technologies, applying the right automation approach for each specific use case.

Key benefits of Magic Software's platform include:

- **Business Process Management.** At the core of our platform is an advanced engine that enables the modeling, modification and management of complex processes. This engine enables orchestration of any business workflow.
- **Decision Rules.** Appian includes a declarative environment for defining and executing business logic or rules. These rules can be highly complex and can be applied within the Appian platform to many use cases, ranging from automated decision making to user experience personalization.
- **Seamless integration with existing systems and data.** In contrast to typical enterprise software, our platform does not require that data reside within it in order to enable robust data analysis and cross-department and cross-application insight. Our platform seamlessly integrates with many of the most popular enterprise software applications and data repositories and can be used within many legacy environments. For example, organizations frequently use our platform to extend the life and enhance the functionality of legacy systems of record, such as those used for enterprise resource planning, human capital management and customer relationship management, by building new applications that enhance the functionality of those systems and by leveraging the data within those systems to further optimize and automate operations.
- **Embrace the full benefits of the public cloud.** Our platform helps customers to accelerate the migration of their on-premises workloads to the cloud. Our platform modernizes our customers' applications and data management capabilities to accelerate migrations to the cloud, allowing them to embrace innovation, create digital-first business models, reduce operating costs, and generate new revenue streams.
- **Deliver rich 360-degree business experiences.** By enabling our customers to aggregate, consolidate and normalize their data to build a single source of truth, we empower them to deliver highly engaging and personalized customer experiences. This allows our customers to embrace a digital-first business strategy, build better connections and relationships with their end users, and modernize their supply chains by intelligently matching supply with demand patterns.

In the aggregate, these core capabilities enable Magic to automate and govern end-to-end processes. Magic complements these automation technologies with related features like process reporting, analytics and management, which make it simple for organizations to quickly improve and upgrade their automations as business needs change.

In March 2018, Magic Software released Magic xpi version 4.7 with a new OData Provider connector, Active Directory Federation Services (ADFS) support for the SharePoint Online (MOSS) connector, ability to write new connectors based on Magic xpa Application Platform's runtime technology and multiple features to improve programming productivity, such as visual indicators of data flow status and an enhanced monitor to provide an even more accurate bird's eye view of all running projects.

In October 2018, Magic Software announced that Magic xpi Integration Platform 4 achieved SAP-certified integration with SAP S/4HANA, enabling our customers to optimize business processes through automation across leading ERP, CRM, finance, and other enterprise systems using a single platform.

In February 2019, Magic Software released Magic xpi version 4.9 with a new REST client connector, ODATA connector enhancements, inherent UPSERT support in the data mapper, and built-in cloud support.

In August 2019, Magic Software released Magic xpi version 4.11, enabling access to remote connectors residing at another site, without the need for a VPN (aka 'Local Agent' capability). In addition, in the beginning of 2020 we released the major released Magic xpi 4.12, which includes 64-bit support for our Run-Time engine as-well as integration with one of the industry's API management solutions suites. During 2019, we also released additional features pursuant to customer requests.

In 2020, Magic Software enhanced the above Local Agent capability with more functionality, added additional connectors (e.g., OPC for manufacturing) and invested more resources in the overall product stability. In addition, Magic Software has added various features to the platform to expand its product offering, per customer requests and extended its offering adding EDI capabilities.

In 2021, Magic Software enhanced Magic xpi Local Agent capabilities with more functionalities, added additional connectors (e.g., OPC for manufacturing) and invested more resources in the overall product stability. In addition, Magic Software moved its Magic xpi platform to be a cloud native platform deployed by dockers container.

In 2022, Magic Software continued to expand its product offering with additional features, per customer requests. In March 2023 Magic Software launched Magic xpi Cloud Native, allowing shifting xpi integration projects to the cloud smoothly. The xpi Cloud Native environment configurations based on Kubernetes, focuses on scalability, security, and resilience. The deployment process is made effortless with our new "Cloud Manager". Cloud Manager interface hides all the complexities of cloud deployment and clustering and performs all the heavy lifting through easy to use and intuitive set of Rest API's. These APIs also bring agility and efficiency to organizations CI/CD practices via "Continuous Deployment" capabilities.

Magic SmartUX

Magic SmartUX, a platform Magic Software acquired in April 2019, is a low-code development platform for mobilizing and modernizing enterprise business application designed for citizen to professional developers to rapidly design, build, analyze, and run cross-platform mobile business applications.

The Magic SmartUX platform addresses the three biggest challenges enterprises are facing in the road to Digital Transformation:

- Multi-platform: end client devices are abundant and diverse, we provide an omni-channel solution.
- Many Systems of Record: over the years enterprise adopted (home grown and third party) solutions that scattered the business flow over many different system, Magic SmartUX enable the enterprise to expose complex business flows to modern technology with now changes and overhead to the existing working applications.
- Talent Gap: Mobile and integration are the hardest skillsets for IT orgs to find, with the Magic SmartUX platform addressing Citizens Developers, we allow any intern tech savvy individual to deliver complex and robust Mobile business application.

On May 2019, Magic Software launched the release of FactoryEye, a proprietary high performance, low-code, flexible, cloud platform built specially for manufacturers based on a modern architecture enabling advanced manufacturing and organizational intelligence, real-time virtualizations and actionable insights for cross-organizational effectiveness and increased bottom line. Magic Software has hundreds of manufacturing customers, and drew on over 35 years of manufacturing experience to develop FactoryEye.

The product's intuitive and user-friendly workspace empowers manufacturers by providing all the analysis the report they need in order to make faster and smarter decisions based on real-time data and analytics. This translates into improved productivity, faster delivery times, and better control over the manufacturing processes, leading to increased customer satisfaction and higher profit margins. FactoryEye offers dozens of prebuilt connectors to a range of enterprise applications and MRP systems, such as SAP, JD Edwards, and Infor, as well as MES, CRM, and PLM systems. FactoryEye collects real-time data from existing machinery, operational and organizational systems and transforms it into actionable intelligence for immediate results and continuous improvement in the manufacturing process and operational efficiency. The solution brings the benefits of Industry 4.0 connectivity to mid-sized manufacturers in several industry verticals, including automotive parts, food & beverage, medical devices, metal processing, packaging, plastics & rubber specialty manufacturing and more.

The addition of FactoryEye to Magic Software's software portfolio allows Magic Software to provide to its new and existing manufacturing clients, with a comprehensive Industry 4.0 digital transformation solution and aligns with Magic Software strategy of enhancing its portfolio with enterprise-grade technologies.

FactoryEye's end-to-end solution incorporates several key features:

- Powered by Magic Software plug and play IIoT Integration platform.
- Incorporates advanced analytics and AI into decision support
- Promote centralized visibility across operations
- Access to information necessary to quickly make smart decisions
- Flexible, simplified and incremental digital transformation
- Increased equipment productivity and operational efficiency
- Improved machine uptime and reduced maintenance costs
- Leverages investments and allows quick ROI by integrating existing systems

In addition to offering a dynamic cloud-based software solution, FactoryEye manufacturing consultants work with customers to harmonize their systems and fit the right tools for their needs. Consultants analyze business processes for what is working, formulate a plan to add what is missing from existing systems and create sprints to deliver immediate results. A dynamic cycle of data collection and analysis allows for continuous improvement and flexibility in the optimization process.

Since its launch, Magic Software made a targeted effort to reach mid-sized manufacturers who are looking to improve the efficiency of their factories. Our goal is to position FactoryEye as a solution that offers more than mere factory floor visibility through IIoT connectivity, while remaining more cost-effective and customizable than offerings from "Tier 1" companies. To that end, Magic Software has built a new website for FactoryEye, as well as blogs, whitepapers, e-books, public relations activities, exhibitions and events, round tables and on-line campaigns, all in the purpose of increasing the awareness of this new offering and benefits for mid-sized manufacturers.

FactoryEye brings the benefits of Industry 4.0 to mid-sized manufacturing companies, with an easy, affordable, and flexible approach that does not require changing existing systems and infrastructure. This Industry 4.0 solution captures vast amounts of production data, transforms it into actionable intelligence, and empowers workers, managers and executives to make informed decisions in real-time.

In addition, we continue to market Magic Software's application and integration products. These products continue to provide value and convenience for our customers as low code options to integrate their disparate systems.

Magic Software Vertical software solutions

Clicks™

Magic Software Roshtov subsidiary has approximately three decades of proven experience based on its proprietary comprehensive core software solution for medical record information management systems, using in the design and management of patient-file for managed care and large-scale healthcare providers. The platform, which can be tailor-made to the specific needs of the healthcare provider, is connected to the clinical, administrative and financial data base system, residing at the provider's central computer, and allows immediate analysis of complex data with potentially real-time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers.

All of our clients that buy or subscribe to our Clicks software solution also enter into software support agreements with us for maintenance and support of their medical record management systems. In addition to immediate software support in the event of problems, these agreements allow clients to access new releases covered by support agreements. In addition, each client has 12-hour access, six days a week (6 hours on Friday) to the applicable call-center support teams.

We employ a team of 35 research and development specialists that together with our clients create a future where the health care system works to improve the well-being of individuals and communities. Roshtov's proven ability to innovate has led to what we believe to be an industry leading architectures and a breadth and depth of solutions and services.

There are four healthcare service providers in Israel, of which, Maccabi Healthcare Services and Clalit, which are the two largest healthcare providers in Israel accounting for 77% of the Israeli market, have been our customers since the early 1990's.

Leap™

Our FTS subsidiary has over 20 years of BSS experience, based on dozens of projects delivered to customers worldwide. We implement revenue management and monetization solutions in mobile, wireline, broadband, MVNO/E, payments, e-commerce, M2M / Internet of Things, mobile money, cable, cloud and content markets under the brand name of Leap™. Our Leap™ solutions lower the total cost of ownership (TCO) for telecom, content and payment service providers.

FTS works with telecommunications, content and payment service providers globally to help them manage complex transactions and relationships with greater flexibility and independence. Analyzing transactions from a business standpoint, FTS offers end-to-end and add-on telecom billing, charging, policy control and payments solutions to customers worldwide, and services both growing and major providers.

FTS targets mid to lower level tier service providers, supporting their BSS needs with end-to-end, turnkey billing and other BSS projects. In addition, FTS offers upper-tiers of service providers with BSS and monetization solutions for specific needs, including policy control and charging solutions, M2M billing, billing for content services, MVNE/MVNO billing, mobile money software solutions, payment and mobile financial services solutions and others.

Our Leap™ offering is comprised of:

Leap™ BCCF (Business Control and Charging Function) – a proprietary packaged software solution which serves as the underlying foundation of our Leap™ products and solutions. Leap BCCF enables service providers to handle the aspects of event processing, from defining the system's business logic, through importing events and formatting, to charging and executing business rules. With Leap BCCF, new services are deployed on the fly, and strategic business rules are formulated more easily, ensuring real-time responses to both service and customer-related events and providing a baseline for policy control.

Leap™ Billing 6.3 – a convergent charging, billing and customer care solution that realizes substantial reductions in OPEX and CAPEX while increasing customer satisfaction and retention. Leap Billing software's flexibility and ease of use enables the service providers' billing platform to work more at the speed of marketing by offering new marketing plans or services in a rapid time-to-market.

Leap™ Policy Control - Leap Policy Control is an integrated charging and policy control solution (a full PCC solution based on PCRF& online/offline charging). Compliant with the 3GPP's Diameter policy control standard, Leap Policy Control provides traffic and subscriber management strategies. Leap Policy Control gives operators the power to monitor usage in real time and, using fully configurable business rules, define how they manage network resources, applications, and subscribers – in real time – while generating revenue from personalized mobile applications, content and services. Leap Policy Control can be implemented as a stand-alone solution or as part of a larger BSS project implementation.

FTS Express™ - FTS express™ is an all-in-one software appliance for online charging, billing, AAA, balance management, customer care, policy control and interconnect, designed for entry-level operations of MVNOs, LTE, VoIP, ISP, broadband, IPTV and more.

The following is a sample of the monetization solutions offered by FTS:

- End-to-end, turnkey billing and customer care solutions;
- Convergent, online charging and billing;
- Policy control and charging;
- MVNO/E billing;
- Billing for content;
- Interconnect billing;
- M2M / IoT billing;
- Broadband and multi-play billing;
- Mobile money solutions;
- E-commerce and M-commerce solutions;
- Payments and mobile payments solutions;
- Smart revenue sharing and partner management solutions; and
- Billing service bureau.

FTS's solutions are delivered via cloud, on-premises or in a fully managed-services mode and are backed by our Israel and Bulgaria-based experienced professional services support team.

HR Pulse

Now in its 10th release, HR Pulse is a proprietary platform that creates and customizes software applications for HCM, with the goal to combine technology with effective processes, to facilitate the collection, analysis and interpretation of quality data about people, their jobs and their performance, to enhance HCM decision making, resulting in increased organizational efficiency and effectiveness. HR Pulse addresses four distinct functional areas with the ability to also work as one consolidated system:

- Performance and goal management;
- Development management;
- Talent management and succession planning; and
- Compensation and merit review.

Our offering includes customizable “out of the box” HCM SaaS Solutions, such as Pilat Frist and Pilat Professional, that provides a menu of templates that can be used to affordably and expeditiously create customized HCM solutions for companies. The HR Pulse platform promotes the building and implementation of solutions that address broader business challenges as well. Such offerings include 360-degree feedback, employee surveys, leadership and management development, coaching and job evaluation.

Hermes Cargo

Hermes has been developing and evolving cargo management systems for the air cargo industry since 2002. Hermes Air Cargo Management System is a proprietary, state-of-the-art, packaged software solution for managing air cargo ground handling. Our Hermes Solution covers all aspects of cargo handling, from physical handling and cargo documentation through customs, seamless EDI communications, dangerous goods and special handling, tracking and tracing, security and billing. Over the last 10 years Hermes systems have been implemented in over 70 terminals on five continents, providing efficient and accurate handling of more than 5 million tons of freight annually. Customers benefit through faster processing and more accurate billing, reporting and ultimately enhanced revenue. Customers include independent ground handlers, airlines with a cargo arm, hubs belonging to an individual airline or those catering to a number of airlines transiting cargo to additional destinations. The Hermes Solution is delivered on a licensed or fully hosted basis.

Hermes systems are built with the specific needs of air cargo handlers and airlines in mind and are amongst the most versatile and sophisticated around. Hermes Solutions are focused on maximizing customer profits by streamlining ground handling processes and employing built-in best practices to reduce handling errors. Hermes team of cargo experts carry out a full business analysis, listen to our customers’ requirements, suggest additional functionality and work with them to deliver an air cargo management solution that is streamlined around their processes and customized to their needs. Hermes works with everyone from smaller cargo handlers to large airlines all over the world and counts Menzies Aviation, Frankfurt Cargo Services , , Etihad Airport Services, Pactl’ (Shanghai) and dnata Network among their customers.

Nativ

Offered by Magic Software’s Menarva Ltd subsidiary, Nativ is the leading system for efficient management of all types of rehabilitation centers. Selected by many of the largest rehabilitation and treatment centers in Israel, Nativ serves as a comprehensive solution, the largest and most specialized and equipped system in Israel, with all the capabilities required for operating all aspects of organizations engaged in rehabilitation and treatment. professional software and IT services. From rehabilitation programs to recruitment, Nativ enables control of all levels of rehabilitation bodies, including monitoring detailed rehabilitation plans, finance, collection, account management, recruitment, working hours, asset management, employment and medical files.

In addition, Nativ also contains many integral interfaces, including the Israel’s Ministry of Health’s suppliers portal, Israel’s Ministry of Welfare’s suppliers portal, rent transfers from the Israel’s Ministry of Housing, accounting systems, payroll systems and more. The system produces a wide range of reports, including a receipt report from Israel’s Ministry of Health, Welfare, Economy and Security, comprehensive and detailed information divided into units and services, a detailed living allowance report, patient report, condition report, emergency report and more.

Menarva has extensive experience gained in its work over the past 10 years with dozens of clients in Israel, an experience that has given rise to in-depth insights into the field of rehabilitation. Nativ is supported by the cloud and allows connection at any time and from any place for maximum efficiency, including a mobile application for continuous monitoring of field personnel in real time.

Nativ offers maximum survivability, due to the need for high reliability and comprehensive information security, all infrastructure is owned by Menarva and the system complies with all standards and guidelines of Israel's Privacy Protection Authority, including ISO standards: Standard 9001 for Quality Control, and Standard 27001 for information systems development.

Magic Software Product Development

Magic Software place considerable emphasis on research and development in order to improve and expand the functionality of our technologies and to develop new applications. We believe that our future success depends upon our ability to maintain our technological leadership, to enhance our existing products and to introduce new commercially viable products addressing the needs of our customers on a timely basis. We also intend to support emerging technologies as they are introduced in the same way we have supported new technologies in the past. We will continue to devote a significant portion of our resources to research and development. We believe that internal development of our technology is the most effective means of achieving our strategic objective of providing an extensive, integrated and feature-rich development technology. For significant version release see "Magic's Software Solutions" discussed above.

Magic Software Product-Related Services

Professional Services. Magic Software offer fee-based consulting services in connection with installation assurance, application audits and performance enhancement, application migration and application prototyping and design. Consulting services are aimed at generating both additional revenues and ensuring successful implementation of Magic xpa, Appbuilder, Magic xpi, Magic BusinessEye, SmartUX and FactoryEye projects through knowledge transfer. As part of management efforts to focus on license sales, our goal is to provide such activities as a complementary service to our customers and partners. We believe that the availability of effective consulting services is an important factor in achieving widespread market acceptance.

Services are offered as separately purchased add-on packages or as part of an overall software development and deployment technology framework. Over the last several years, we have built upon our established global presence to form business alliances with our MSPs that use our technology to develop solutions for their customers, and distributors to deliver successful solutions in focused market sectors.

Maintenance. We offer our customers annual maintenance contracts providing for unspecified upgrades and new versions and enhancements for our products on a when-and-if-available basis for an annual fee.

Customer Support. We believe that a high level of customer support is important to the successful marketing and sale of our products. Our in-house technical support group provides training and post-sale support. We believe that effective technical support during product evaluation as well as after the sale has substantially contributed to product acceptance and customer satisfaction and will continue to do so in the future.

We offer online support systems for our MSPs and end users, providing them with the ability to instantaneously enter, confirm and track support requests through the Internet. These systems support MSPs and end-users worldwide. As part of this online support, we offer Support Knowledge Base tools providing the full range of technical notes and other documentation including technical papers, product information, and answers to most common customer queries and known issues that have already been reported.

Training. We conduct formal and organized training on our development tools and packaged software solutions. We develop courses, pertaining to our principal products and provide trainer and student guidebooks. Course materials are available both in traditional, classroom courses and as web-based training modules, which can be downloaded and studied at the student's own pace and location. The courses and course materials are designed to accelerate the learning process, using an intensive technical curriculum in an atmosphere conducive to productive training.

Magic Software IT Services

Background

The core of our growth strategy is to serve as a one-stop-shop for our clients, helping them accelerate their digital transformation to enhance competitiveness, grow profitability and deliver sustainable stakeholder value. We use our deep industry and functional expertise to help clients capture more growth and solve a diverse set of business challenges, including identifying and developing new products and services; improving sales and customer experience; optimizing cost structures; maximizing human performance; harnessing data to improve decision-making; mitigating risk and enhancing security; shaping and delivering value from large-scale cloud migrations; and digitizing manufacturing and operations with smart, connected products and platforms.

Technology is the single biggest driver of change in companies today. We help our clients use technology to build their digital core to drive enterprise-wide transformation—such as moving them to the cloud, leveraging data and artificial intelligence, and embedding security and sustainability across the enterprise; by transforming their operations; and by accelerating their revenue growth. We leverage our scale and global footprint, innovation capabilities, and strong ecosystem partnerships, together with our platforms including to consistently deliver tangible value for our clients.

According to Gartner, 2023 should have ended with a 3.3% increase in global IT spending. In Israel, the forecasts for IT expenses in 2023 were greatly influenced by the war, the geopolitical situation of Israel, and the uncertainties derived from it. Analysts predict that the increase in IT spending in Israel in 2023, in light of the ongoing war, was to reach only 4%, after being reduced by 2% due to the war, which reflects the stability and resilience of the Israeli IT 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 solutions sector expected to grow by 10.5% and the IT services sector by 8.3%. According to Gartner, the growth is expected to reach only 6.8%, with the software solutions sector expected to grow by 12.7% and the IT services sector by 8.7%. Furthermore, 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 was 17.8%, and in 2024 19%, while in the field of infrastructure cloud (IaaS) there was an increase of 24%. The growth rate of Cloud computing is the fastest growing area in IT between five and six times the average growth of IT expenses.

Magic Software services offerings consist of a variety of professional services that can be grouped into integration and other IT services. Our integration services include:

- **Infrastructure analysis, design and delivery** - management of complex, tailor-made projects and telecom infrastructure projects in wireless and wire-line as well as IT consulting services, mainly for the defense and public sectors.
- **Technology consulting and implementation services** - planning and execution of end-to-end, large-scale, complex solutions in networking, cyber security, command & control and high performance transaction systems.
- **Application development** - We specialize in end-to-end projects that feature an array of technologies, from development and implementation of concepts for startups to overall responsibility for the development of systems for large enterprises. Our development services include development of on-premise, mobile and cloud applications as well as Embedded and real time software development.

Magic Software is a talent- and innovation-led organization with approximately 3,628 people as of December 31, 2023, who serve our clients at any given time and whose skills and specialization are a significant source of competitive differentiation. With approximately 3,000 experts, the majority of whom are in the U.S, Israel and Europe, and hundreds of projects gone live in a variety of advanced technologies, we have developed significant expertise and accumulated vast experience in integration projects. Such projects are typically more complex and require a high level of industry knowledge and highly skilled professionals. Our integration expertise, as well as our global reach allows us to deliver comprehensive, value added services to our customers. Our IT services customers include major global telecoms, OEMs and engineering, furnish and installation service companies.

Magic Software provides a broad range of IT consulting services in the areas of infrastructure design and delivery, application development, technology planning and implementation services, cloud computing, as well as supplemental outsourcing services. Our wholly-owned subsidiaries, Fusion Solutions LLC, Xsell Resources Inc., Allstates Consulting Services LLC, Futurewave Systems, Inc., NetEffects, Inc, OnTarget Group, Inc, the CommIT Group, Infinigy Solutions LLC., The Goodkind Group LLC., EnableIT LLC, Comblack IT Ltd. Shavit Software (2009) Ltd. and K.M.T. (M.H.) Technologies Communication Computer Ltd., provide advanced IT consulting and outsourcing services to a wide variety of companies including Fortune 1000 companies. Our technical personnel generally supplement the in-house capabilities of our customers. Our approach is to make available a broad range of technical personnel to meet the requirements of our customers rather than focusing on specific specialized areas. We have extensive knowledge of and have worked with virtually all types of wireless and wireline telecom infrastructure technologies as well as in the areas of infrastructure design and delivery, application development, project management, technology planning and implementation services. Our consulting partners come from a wide range of industries, including finance, insurance, government, health care, logistics, manufacturing, media, retail and telecommunications. With an experienced team of recruiters in the telecom and IT areas and with a substantial and a growing database of telecom talent, we can rapidly respond to a wide range of requirements with well qualified candidates. Our customer list includes major global telecoms, OEMs and engineering, furnish and installation service companies. We have built long-term relationships with our customers by providing expert telecom talent. We provide individual consultants for contract and contract-to-hire assignments as well as candidates for full time placement. In addition, we configure teams of technical consultants for assigned projects at our customers' sites.

Michpal

Michpal, an Israeli registered company, is a developer of proprietary, on-premise payroll software solution for processing traditional payroll stubs to Israeli enterprises and payroll service providers. Michpal also developed several complementary modules such as attendance reporting, which are sold to its customers for additional fees. As of December 31, 2023, Michpal group serves more than 8,000 customers, most of which are long-term customers.

As part of its payroll software solution, Michpal allows the preparation of employee paychecks, pay statements, supporting journals, summaries, and management reports and supports monthly and year-end regulatory and legislative payroll tax statements and other forms such as payroll social and income taxes, to its clients and their employees. In addition, Michpal enables its clients to connect to certain major enterprise resource planning, or ERP, applications with a certified connector.

In January 2018, Michpal released its new product and a new service line – “Michpal Pension” and “Michpal PensionPlus”, respectively, which led to a 25% increase in revenues of Michpal year over year. These solutions enable all Israeli employers to digitally report their employees' pension fund payments to their respective pension funds as required by Israeli law (this requirement took effect on February 1, 2018 for employers who employ more than 21 employees, on February 1, 2019 for employers who employ more than 10 employees, on February 1, 2023 for employers who employ more than 3 employees and on February 1, 2024 also for employers who employ less than 3 employees).

In November 2018, Michpal expanded its business through the acquisition of an 80% share interest in Effective Solutions Ltd., an Israeli company that provides consulting services in the fields of operational cost savings and procurement, as well as salary control and monitoring. The two companies have launched, in November 2018, a new service called ‘Michpal YEDA’, adopted by more than 50% of Michpal's customers, which allows clients to consult with team of experienced professionals, including employment attorneys and HR experts, with respect to payroll, labor, pensions, social security and employee income tax matters.

In January 2019, Michpal launched a supplement service line, “Michpal 360”, specially tailored for payroll service providers, allowing them to offer their clients to digitally report their employees’ pension fund payments to their respective pension funds as required by law.

In November 2019, Michpal completed its second acquisition, acquiring all of the share capital of Unique Software Industries, an Israeli software development and services company, which during its 30 years of operations, has provided integrated solutions in the field of payroll, including pay-stubs, pension services management, education funds management, and software solutions for managing employee attendance. The acquisition constituted an additional strategic move towards the expansion of our operations in the field of payroll and human resources management in which we currently engage primarily through the Michpal group. Following the acquisition of Unique, we started operating in the complementary field of outsourced payroll services, in which we were not active and will allow us to penetrate the field of services bureaus, by way of expanding our present customer base.

In May 2020, Michpal completed the acquisition of 70% of the share capital of Liram Finance Software Ltd, a provider of proprietary integrated specialized management systems in the field of financial accounting, taxation and compliance, for accounting professionals (accountants and tax consultants), bookkeepers, controllers, and CFOs, giving its clients, for more than 35 years, complete confidence in their actions and decisions. Liram’s solutions include specialized financial software solutions for preparation and reporting of financial statements, tax declarations, single-entry and double-entry bookkeeping, fixed asset management and depreciation calculations (under the brand name Ram-Nihul).

In 2021, Liram launched its “RamPlus 360” platform, which is a modular platform offering a wide range of Liram’s software solutions under one integrated working environment (on-premise or online). The new platform has already proven its efficacy during the COVID-19 crisis by enabling financial professionals to continue their work offsite and provide crucial real-time and personalized service to their clients even during the COVID-19 lockdown period, while saving time and preventing errors. We believe that the acquisition of Liram is a strategic step towards the expansion of Michpal’s operations in the field of payroll, human resources and financial management and compliance.

In January 2022, Michpal launched its digital employee payroll portal - for employer and employee. The portal allows employees 24X7 access to view their pay stubs and payroll tax history, update their profile information such as their mailing address, phone number, and email address, get notification directly from their employer on every monthly salary payment and extract administrative reports including employee’s monthly attendance reports.

In February 16, 2022, Michpal acquired 70% of the share capital of Formally Smart Form System Ltd. (“Formally”). Formally is an Israeli-based company and the creator of Formally Smart Form platform – a central server platform for managing knowledge and work processes, and for producing digital forms combined with a legally-binding eSignature technology allowing customers to create impressive documents in minutes and get them signed in a snap. Formally offers a variety of proprietary computerized and advanced tools for managing business processes trusted by Israel’s largest financial, banking, and insurance enterprises. Its “no-code” platform, allows to convert outdated forms into a digital process for any company freeing IT teams from ongoing maintenance issues and enables employees across the organization to deliver new digital products quickly and efficiently.

InSync

InSync is a US based national supplier of employees to Vendor Management Systems (VMS) Workforce Management Program accounts. InSync specializes in providing professionals in the following areas: Accounting and Finance, Administrative, Customer Service, Clinical, Scientific and Healthcare, Engineering, Manufacturing and Operations, Human Resources, IT Technology, LI/MFG, and Marketing and Sales. With an experienced team of IT recruiters, InSync can rapidly respond to a wide range of requirements with well-qualified candidates. InSync currently supports more than 30 VMS program customers with employees in over 40 states.

Zap Group

Zap Group, is Israel's largest group of consumer websites which manages more than 20 leading consumer websites from diverse content worlds with a total of more than 17 million visits per month, including Zap Price Comparison website, Zap Yellow Pages (the largest business index in Israel) and Zap Rest (Israel's restaurants index). Zap Group, an Israeli private company, provides a variety of digital advertising solutions for its customers (small and medium businesses in Israel) and an access to an E-commerce platform to allow them engage with their consumers. Zap Group serves over 400,000 listed businesses on its platforms; approximately 16,000 of them are paying customers.

The websites managed and offered by Zap Group offer consumers a user-friendly search experience with a variety of advanced tools, which enable them to make educated purchase decisions in the best and most informed way.

Digital Solutions

Zap Group provides a variety of digital advertising solutions for its customers (small and medium businesses in Israel) and an access to an E-commerce platform that allows them to engage with their consumers. Zap Group regularly seeks to develop attractive digital solutions, which it believes to have market potential for small and medium businesses and their end user. All of Zap Group's investments in this area have been proven, where we believe we can leverage our experience to enhance product positioning and increase market penetration. We provide our management and technical and financial expertise, marketing experience to help bring these products to market.

E-commerce Solutions

Zap Group provides an E-commerce platform for approx. 1,500 large, medium and small businesses, which operates stores in Israel. The platform, both website and application, allow end users to compare prices of the various stores for over 1.2 million products in 650 categories. The platform provides to more than 120 million visiting end users annually, 300,000 reviews of stores and products and 5,000 quality guides (videos and articles), which allow them to engage through the platform directly with stores for the purchase of a certain product they looked at through the platform. Total online purchases through the platform are estimated at approximately NIS 2 billion annually, which is estimated as constituting 14% out of total online purchase volume in Israel (not including food and beverage).

In 2021, Zap Group launched a new website for car sellers and buyers, which provides a marketplace where buyers can explore on one website various options for buying a second-hand car (B2C). The platform allows the buyer to compare prices, specs, financing, peripheral services, accessories and overall packages. The online, real-time supply availability enables transparency, and also provides the buyer an aggregated view of specific sellers and agencies, and direct contact with a large pool of sellers.

In December 2022 Zap Group concluded the acquisition of 51% of the outstanding share capital of N.C Marketing and Advertising Ltd. (also known as "Safra digital marketing") and 51% of the outstanding share capital of Marcomit Ltd. ("Marcomit"). Safra digital marketing is an Israeli company specializing in social media services including Facebook, Instagram and Tik-tok. Marcomit is an Israeli company specializing in digital branding for large enterprises including advanced branding materials for media and digital advertising.

Digital platforms

Zap Group provides digital advertising platforms and services through 18 websites for medium and small businesses in 1,600 business categories in Israel, including doctors, lawyers, and other service and product providers. The platform, both website and application allow end users to contact directly with the service provider. The platform provides to more than 50 million visiting end users annually, 200,000 reviews 2,000 quality guides (videos and articles), 300 price lists, and 700 forums with more than 1.5 million expert explanations.

Zap Group also provides its customers other digital services such as Search Engine Marketing (Pay Per Click Google and Facebook campaigns) and Search Engine Optimization for their websites. In addition, Zap Group provides website design services, creation of new websites on various tools (ZAP-X), management of social media, online business cards (GMB), and big data services.

Restaurants and events

Zap Group provides digital advertising platforms and services for more than 17,000 restaurants listed and provides services for social events. Approximately 2,500 of them are paying customers. The platform, both website and application allow end users to directly contact the restaurant for table ordering, ordering of delivery or take away, to post visit reviews or explore the restaurant menu, photo gallery and other content such as articles, etc. The platform provides to more than 30 million visiting end users annually, approximately two million food deliveries, 200,000 reviews, 5,000 food and culinary articles (videos and articles), and more than 0.5 million push updates annually.

Other

Zap Group provides a digital advertising platform for domestic travel and hospitality businesses in Israel. The platform— both website and application— allows end users to order directly from the provider (hotel, guesthouse or attraction service provider). The platform provides access to approximately 1,200 vacation and leisure locations, and to millions of visiting end users annually.

Our Affiliated Company

TSG

TSG is a global high technology company engaged in high-end technical solutions for protecting the safety of national borders, improving data gathering mechanisms, and enhancing communications channels for military, homeland security and civilian organizations.

TSG operates primarily in the defense and homeland security arenas. The nature of military and homeland security actions in recent years, including low intensity conflicts and ongoing terrorist activities, as well as budgetary pressures to focus on leaner but more technically advanced forces, have caused a shift in the defense and homeland security priorities for many of TSG's major customers. As a result, TSG believes there is a continued demand in the areas of command, control, communications, computer and intelligence (C4I) systems, intelligence, surveillance and reconnaissance (ISR) systems, intelligence gathering systems, border and perimeter security systems, cyber-defense systems. There is also a continuing demand for cost effective logistic support and training and simulation services. TSG believes that its synergistic approach of finding solutions that combine elements of its various activities positions it to meet evolving customer requirements in many of these areas.

TSG tailors and adapts its technologies, integration skills, market knowledge and operationally-proven systems to each customer's individual requirements in both existing and new platforms. By upgrading existing platforms with advanced technologies, TSG provides customers with cost-effective solutions, and its customers are able to improve their technological and operational capabilities within limited budgets.

TSG markets its systems and products either as a prime contractor or as a subcontractor to various governments and defense and homeland security contractors worldwide. In Israel, TSG sells its defense, intelligence and homeland security systems and products mainly to the IMOD, which procures all equipment for the Israeli Defense Force (IDF).

In 2022 TSG acquired 51% of the outstanding share capital of E.P.R. Systems Ltd. Headquartered in Israel, E.P.R. has over 20 years of experience and serves more than 100 local authorities in Israel. E.P.R. offers comprehensive software solutions for municipal institutions primarily to manage all their billing and collection operations for all types of revenues, including taxes, fees and levies and several innovative extension modules. Additionally, E.P.R. offers a full scope of expert implementation, application management and hosting services, enabling municipal institutions to execute their digital and business strategies. In accordance with the purchase agreement, TSG may acquire additional 9% of the outstanding share capital of E.P.R. during the first 12 months following the closing based on the 51% closing date deal value. In January 2023, TSG exercise its right and acquired the additional 9% of the outstanding share capital of E.P.R. In January 2023, TSG acquired Bar Technologies Ltd. Bar Technologies is an Israeli based company engaged in the development and sale of software and services to local authorities, in aspects related to engineering activities, urban planning, and asset planning, in a manner that complements TSG's activities and EPR's activities.

TSG's offerings include:

Command & Control Solutions

TSG offers sophisticated and innovative command and control solutions that support military and civilian sectors on land, air and sea. TSG provides a variety of Command & Control solutions ranging from strategic battlefield management to tactical and special operations forces. TSG systems cover all echelons of management, from national and regional levels down to the operational and tactical levels. Its systems are field proven and used by military forces, security services and public safety organizations worldwide.

The command and control solutions developed by TSG are designed to enable the management, control, and oversight of its clients' relevant operational data, and to manage operational areas across different arms in the field (land, air, and sea). In this framework, TSG's solutions facilitate the internal processing of data received through the systems, provide precise information on the relevant operational areas, and plan activities through a central control and command center, allowing proper flow of information along the entire chain of command, presenting a unified and complete picture. Furthermore, there are command and control solutions developed by TSG that are intended to be integrated as part of other third-party solutions, such as radar systems. Generally, TSG operates as a subcontractor for these entities, developing integrated command and control systems including in C4ISTAR configurations.

Among the command and control systems developed by TSG are i) Israel's defense force General Staff command and control platform "Triat Agam"—a central C4ISR system of the IDF General Staff designed to link received information with different arms in the field (as of the date of this overview, and given the completion of the system's development and implementation, TSG is primarily engaged in the maintenance and upgrade of this system), ii) "Avnei Hoshen" - developed and maintained by TSG for monitoring and controlling the IDF C4I Branch's communication network; and iii) the "Shual" C4ISR system for Israel IDF Home Front Command, which is installed in municipalities and local authorities across Israel, for activities with Israel IDF Home Front Command. The development process for most of these systems (which generally involves software aspects) is funded by the client, who specifies their needs in each of the cases.

Intelligence, Surveillance and Knowledge Management Solutions

TSG Intelligence solutions for security agencies and defense forces meet the demand for accurate and timely intelligence, based on multiple sources and sensors. TSG unique technologies cover the entire life-cycle of intelligence from acquisition to fusion, analysis, distribution, target management and more. TSG's Knowledge Management solutions provide public sector bodies with the capacity to effectively manage their organizational data, support decision making and follow-up. These type of solutions are primarily marketed to security agencies and law enforcement bodies domestically and internationally. These entities utilize these solutions for mapping and analyzing intelligence data, enabling the planning of complex operations and tactical action plans. These capabilities are crucial for preparing and executing strategies that require precise, real-time information to make informed decisions on the ground.

Telecommunication & IT Management Solutions

TSG has extensive experience in developing and integrating telecommunications and IT solutions and tools such as Operations Support Systems (OSS), Contact Centers, Back Office Optimization and Value-Added Services (VAS) that are tailored to meet the requirements of multiple applications. Leveraging deep know-how in telecommunications, TSG provides wide-ranging offering suitable for public and private sector organizations.

Cyber Security Solutions & Services:

TSG provides cutting-edge security services and solutions to government and private sectors including secure critical infrastructure and financial institutions in cyber space. TSG cyber solutions, Cyber Security Center (CSC), Security Training, Security Investigations and Security Engineering support the establishment of a safe, secure and reliable work environment and cover, among other things, Security Engineering, Digital Forensics, Computer emergency response teams (CERT), Mobile Security, and Training.

Homeland Security Solutions (HLS)

TSG's field proven homeland security solutions maximize safety and security while minimizing threats. TSG provide its clients with paramount technologies ranging from emergency management and Chemical, biological, radiological and nuclear defense (CBRN) systems, to rescue & special operations and smart and safe city solutions.

Supporting Tools:

TSG offers a variety of supporting system and solutions, providing dynamic and customizable field proven applications for in the following verticals:

- Facility Management
- Recording and Debriefing systems
- Trainers and Simulators
- Mapping Engines

We believe that the demand for solutions, systems and services offered by TSG for the defense sector which over the years was generally stable and is expected to increase due to current global developments reflected in the increase of both regions and the scope of events where conflicts occur worldwide such as the Russia-Ukraine war and its repercussions on neighboring European countries and even on other global territories, the Iron Swords war which is perceived as a multi-territory campaign, the security situation in Syria and its global repercussions on nearby areas (such as Israel, Turkey, and even Azerbaijan) and the increasing tensions in the Persian Gulf, as well as neighboring countries in the near and further circles. These trends should lead to increasing investment by many countries (especially some European countries) in their technological systems to strengthen their security infrastructure, creating new opportunities for the marketing of TSG's products. We believe that these trends may advance TSG's ability to integrate its products into various systems in the defense sector both domestically and globally, and significantly impact its operational results.

Geographical Distribution of Revenues

The following table summarizes our consolidated revenues classified by geographic regions of our customers, for the periods indicated:

	2022	2023
Israel	\$ 1,571,035	\$ 1,600,763
International:		
United States	680,325	644,918
Europe	262,303	315,081
Africa	26,692	26,035
Japan	11,333	11,881
Other (mainly Asia pacific)	20,669	22,225
Total	<u>\$ 2,572,357</u>	<u>\$ 2,620,903</u>

Competition

The markets for the IT products and services we offer are rapidly evolving, highly competitive and fragmented, and, in some cases, present only low barriers to entry, with frequent new product introductions, and mergers and acquisitions. Our ability to compete successfully in IT services markets depends on a number of factors, like breadth of service offerings, sales and marketing efforts, service, pricing, and quality and reliability of services. The principal competitive factors affecting the market for the proprietary software solutions include product performance and reliability, product functionality, availability of experienced personnel, price, ability to respond in a timely manner to changing customer needs, ease of use, training and quality of support.

We face competition, both in Israel and internationally, from a variety of companies, including companies with significantly greater resources than us who are likely to enjoy substantial competitive advantages, including:

- longer operating histories;
- greater financial, technical, marketing and other resources;
- greater name recognition;
- well-established relationships with our current and potential clients; and
- a broader range of products and services.

As a result, our competitors may be able to respond more quickly to new or emerging technologies or changes in customer requirements. They may also benefit from greater purchasing economies, offer more aggressive product and service pricing or devote greater resources to the promotion of their products and services. In addition, in the future, we may face further competition from new market entrants and possible alliances between existing competitors. We also face additional competition as we continue to penetrate international markets. As a result, we cannot assure you that the products and solutions we offer will compete successfully with those of our competitors. Furthermore, several software development centers worldwide offer software development services at much lower prices than we do. Due to the intense competition in the markets in which we operate, software products prices may fluctuate significantly. As a result, we may have to reduce the prices of our products.

Matrix's Competitive Landscape

Matrix's principal competitors in the domestic Israeli market are Israeli IT services companies and systems integrators such as: Hilan Ltd., Malam-Team, IBM Israel, One-1, Kyndryl, Aman Computers, the Elad Group, Yael Software, SQLink, Emet Computing, AllCloud, Emet, LogOn, Abra-it, and HMS. Furthermore, there are dozens of medium and small companies operating in Israel, specializing in the fields of activities in which Matrix and its subsidiaries are engaged, which are also among its competitors. In addition, in recent years, large accounting and advisory firms such as Deloitte and E&Y have expanded their service portfolio to include managed services and consulting in the fields of BI, Cybersecurity, ERP and CRM. We view these firms as direct competition, given that they already have a deep understanding of a particular client's business because of the accounting and auditing services they provide, and given the trust that they have developed with the client, which is an essential part of providing any services to a client. This international trend is as evident in Israel as it is in all major markets around the world. Matrix's competitors in the United States market include many companies that provide similar services to those of Matrix, as well as providers of offshore services which utilize low rates. In some cases, Matrix competes with IBM, Accenture, Oracle and the large accounting and advisory accounting firms. To improve Matrix's competitive advantages for its offerings in the U.S market, Matrix takes steps to reduce the cost of its services by i) performing some of the activities in its Offshore Centers in India (under its subsidiary Xtivia), ii) utilizing its Nearshore Development Center in Tampa, Florida, recruiting employees for full-time remote work all over the U.S and iii) by using development resources from Israel. Matrix's international competitors in the Israeli marketplace include Microsoft, IBM, HP and Oracle. These international competitors often use local subcontractors to provide personnel for contracts performed in Israel. Most of these international entities are also business partners of Matrix. The main competitors with respect to infrastructure solutions include One-1, Malam-Team and Emet Computing. With respect to cloud services, competitors include All Cloud, DoIT, Google, Microsoft and Amazon Web Services. Matrix competitors with respect to training are the training centers of the Technion, IITC, HackerU, Ness Technologies, SQLink and Sela.

Sapiens' Competitive Landscape

Sapiens is focused on serving insurers. The market for core software solutions for the insurance industry is highly competitive and characterized by rapidly changing technologies, evolving industry standards and customer requirements, and frequent innovation. In addition, we offer a business decision management platform, mainly to financial services organizations.

Competitive Landscape for Insurance Software Solutions

Sapiens' competitors in the insurance software solutions market differ from us based on size, geography and lines of business. Some of our competitors offer a full suite, while others offer only one module; some operate in specific (domestic) geographies, while others operate on a global basis and delivery models vary, with some competitors keeping delivery in-house, using IT outsourcing (ITO), or business process outsourcing (BPO).

The insurance software solutions market is highly competitive and demanding. Maintaining a leading position is challenging, because it requires:

- Development of new core insurance solutions, which necessitates a heavy R&D investment and in-depth knowledge of complex insurance environments
- Technology innovation to attract new customers, with rapid, technology-driven changes in the insurance business model and new propositions coming
- A global presence and the ability to support global insurance operations
- Ability to manage multiple partnerships, due to the changing landscape of insurers' ecosystems
- Extensive knowledge of regulatory requirements and how to fulfill them (they can be burdensome and require specific IT solutions)
- Continued support and development of the solutions entails a critical mass of customers that support an ongoing R&D investment
- Know-how of insurance system requirements and an ability to bridge between new systems and legacy technologies
- Enabling mission-critical operations that require experience, domain expertise and proven delivery capabilities to ensure success

The complex requirements of this market create a high barrier to entry for new players. As for existing players, these requirements have led to a marked increase in M&A transactions in the insurance software solutions sector, since small, local vendors have not been able to sustain growth without continuing to fund their R&D departments and following the globalization trend of their customers.

We believe Sapiens is well-positioned to leverage our modern solutions, customer base and global presence to compete in this market and meet its challenges. In addition, Sapiens' accumulated experience and expert teams allow it to provide a comprehensive response to the IT challenges of this market.

Different types of competitors include:

- Global software providers with their own IP
- Local/domestic software vendors with their own IP, operating in a designated geographic market and/or within a designated segment of the insurance industry
- BPO providers who offer end-to-end outsourcing of insurance carriers' business, including core software administration (although BPO providers want to buy comprehensive software platforms to serve as part of the BPO proposition from vendors and may seek to purchase our solutions for this purpose)
- Internal IT departments, who often prefer to develop solutions in-house
- New insurtech companies with niche solutions

We differentiate Sapiens from its potential competitors for insurance software solutions through the following key factors:

- Sapiens offer cloud-based innovative and modern software solutions, with rich functionality and advanced, intuitive user interfaces, based on deep domain expertise and insurance know how
- Sapiens uses model-driven architecture that allows rapid deployment of the system, while reducing total cost of ownership and benefiting from cloud deployment
- Sapiens solutions are built using an architecture that allows customers to implement the full solution or components, and readily integrate the solution or individual components into their existing IT landscape
- Strong and global partnership program, with established IT players and new insurtech companies, to ensure linkage to innovative technologies and new business models, as well as ongoing work to embed innovation into Sapiens platforms
- Sapiens identifies technology trends and invests in adjusting its solutions to keep pace with today's frenetic evolutions
- Sapiens' financial stability, and its large and growing global customer base, enables it to fund R&D investment and maintain the competitive advantage of its products.
- Sapiens' delivery methodology is based on extensive insurance industry experience and cooperation with large insurance companies globally. Sapiens' track record over the past few years in developing a strong offshore development center is also a significant parameter in differentiating our abilities in the services space

Sapiens leverages its proven track record of successful delivery to help our customers deploy its modern solutions, while integrating with their legacy environment (when that legacy environment must remain supported)

Competitive Landscape for Business Decision Management Solutions

Sapiens Decision is a pioneer in this disruptive market landscape. Since the introduction of its innovative approach to enterprise architecture to the market, Sapiens has identified only a small number of potential competitors.

Sapiens differentiates itself from potential competitors through the following key factors:

- Sapiens believes that Sapiens Decision is the only solution (that is currently generally available and already in production) that offers a true separation of the business logic in a decision management system for large enterprises.
- Sapiens Decision is unique in its proven ability to support complex environments, with a full audit trail and governance that is crucial for large financial services organizations.
- We understand complex environments where Decision is deployed, due to our experience delivering complex, mission-critical solutions.

Magic Software's Competitive Landscape

The markets for Magic Software Magic xpa and Magic xpi platforms are characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, mergers and acquisitions, and rapidly changing customer requirements. These markets are therefore highly competitive, and we expect competition to continue to intensify. The growth of the cloud adoption and mobile markets increases the competition in these areas. We constantly follow and analyze the market trends and our competitors in order to effectively compete in these markets and avoid losing market share to our direct competitors and other players.

With Magic xpa, we compete in the low-code application platform, SOA architecture and enterprise mobility markets. Our main competitors fall into two categories: (1) providers of custom software and customer software solutions that address, or are developed to address, some of the use cases that can be addressed by applications developed on our platform; and (2) providers of low-code development platforms, such as Microsoft, Salesforce.com, ServiceNow, OutSystems, Appian, Pegasystems and Mendix;

As our market grows, we expect it will attract more highly specialized vendors as well as larger vendors that may continue to acquire or bundle their products more effectively. The principal competitive factors in our market include:

- Platform features, reliability, performance, and effectiveness;
- Ease of use and speed;
- Platform extensibility and ability to integrate with other technology infrastructures;
- Deployment flexibility;
- Robustness of professional services and customer support;

- Price and total cost of ownership;
- Strength of platform security and adherence to industry standards and certifications;
- Strength of sales and marketing efforts; and
- Brand awareness and reputation

With Magic xpi, we compete in the integration platform market, which is highly competitive and rapidly evolving. Among our current competitors are IBM, Informatica, TIBCO, MuleSoft, Jitterbit, Talend, Dell–Boomi, Scribe and Software AG.

There are several similar products in the market utilizing the model driven architecture, or MDA, approach utilized by AppBuilder. The market for this type of platform is highly competitive. Companies such as CA and IBM have tools that compete directly with AppBuilder. Furthermore, new development paradigms have become very popular in IT software development and developers today have many alternatives.

As our market grows, we expect that it will attract more highly specialized vendors as well as larger vendors that may continue to acquire or bundle their products more effectively. The principal competitive factors in our market include:

- platform features, reliability, performance and effectiveness;
- ease of use and speed;
- platform extensibility and ability to integrate with other technology infrastructures;
- deployment flexibility;
- robustness of professional services and customer support;
- price and total cost of ownership;
- strength of platform security and adherence to industry standards and certifications; and
- strength of sales and marketing efforts.

We believe we generally compete favorably with our competitors with respect to the features, security and performance of our platform, the ease of integration of our applications and the relatively low total cost of ownership of our applications. However, many of our competitors have substantially greater financial, technical and other resources, greater name recognition, larger sales and marketing budgets, broader distribution, more diversified product lines and larger and more mature intellectual property portfolios.

Our goal is to maintain our technological advantages, time to market and worldwide sales and distribution network. We believe that the principal competitive factors affecting the market for our products include developer productivity, rapid results, product functionality, performance, reliability, scalability, portability, interoperability, ease-of-use, demonstrable economic benefits for developers and users relative to cost, quality of customer support and documentation, ease of installation, vendor reputation and experience, financial stability as well as intuitive and out-of-the-box solutions to extend the capabilities of ERP, CRM and other application vendors for enterprise integration.

Michpal's Competitive Landscape

With respect to Michpal, the market in which it operates is very fragmented and among its current competitors in the Israeli market in which it operates are mainly Hilan, MalamTeam, Tamal, Synel, Oketz systems and others.

Our goal is to maintain Michpal's technological advantages, time to market, sales and distribution network. We believe that the principal competitive factors affecting the market for Michpal's products include developer productivity, rapid results, product functionality, performance, reliability, scalability, portability, interoperability, ease-of-use, demonstrable economic benefits for developers and users relative to cost, quality of customer support and documentation, ease of installation, vendor reputation and experience, financial stability as well as intuitive and out-of-the-box solutions that extend its capabilities to effectively manage its operations and reduce its business risks in the face of changing business environments.

Seasonality

Even though not significantly reflected in our financial results, traditionally, the first and third quarters of the fiscal year have tended to be slower quarters for some of our subsidiaries and our affiliated companies and the industries in which they operate. The first quarter usually reflects a decline following a highly active fourth quarter during which companies seek to complete transactions and projects and utilize budgets before the end of the fiscal year. The relatively slower third quarter reflects reduced activities during the summer months in many of the regions where our customers are located and also reflects the Jewish national holidays in Israel.

In addition, our quarterly results are also influenced by the number of working days in each period in Israel. For example, during the Jewish holidays period (typically at the end of the third quarter and beginning of the fourth quarter or at the end of the first quarter and beginning of the second quarter), when the number of working days is lower, we tend to see a decrease in our revenues, which may impact our quarterly results. Following is the quarterly breakdown, by percentage, of standard working hours in each quarter of 2023 and 2024 in the Israeli market, which accounts for approximately 63% of our annual revenues:

	<u>1st quarter</u>	<u>2nd quarter</u>	<u>3rd quarter</u>	<u>4th quarter</u>
2024	24.6%	26.3%	23.6%	25.5%
2023	26.1%	24.6%	23.7%	25.6%

In 2023, seasonality due to the Jewish holiday periods adversely impacted the second and fourth quarters (in addition to any adverse impact on working hours caused by the coronavirus pandemic, and the Israeli election day). In 2024, we expect seasonality due to the Jewish holiday periods to adversely impact the second and late third/ early fourth quarters.

The following table presents our revenues allocation per quarter in 2022 and 2023 (by percentage):

	<u>1st quarter</u>	<u>2nd quarter</u>	<u>3rd quarter</u>	<u>4th quarter</u>
2023	25.6%	25.0%	25.0%	24.4%
2022	25.3%	24.8%	24.4%	25.5%

Raw Materials

Generally, we are not dependent on raw materials or on a single source of supply. We manage our inventory according to project requirements. In some projects, specific major subcontractors are designated by the customer. Raw materials used by us are generally available from a range of suppliers internationally, and the prices of such materials are generally not subject to significant volatility.

Further, although we believe that there are currently adequate replacements for the third-party technology that we presently use and distribute, the loss of our right to use any of this technology could result in delays in producing or delivering affected products until equivalent technology is identified, licensed or otherwise procured, and integrated. Our business would be disrupted if any third-party technology we license from others or functional equivalents of that technology were either no longer available to us or no longer offered to us on commercially reasonable terms. In either case, we would be required either to attempt to redesign our products to function with technology available from other parties or to develop these components ourselves, which would result in increased costs and could result in delays in product sales and the release of new product offerings. Alternatively, we might be forced to limit the features available in affected products. Any of these results could harm our business and impact our results of operations.

Software Development

The software industry is generally characterized by rapid technological developments, evolving industry standards and customer requirements, and frequent innovations. In order to maintain technological leadership, we engage in ongoing software development activity through our investees, aimed both at introducing new commercially viable products addressing the needs of our customers on a timely basis, as well as enhancing and customizing existing products and services. This effort includes introducing new supported programming languages and database management systems; improving functionality and flexibility; and enhancing ease of use. We work closely with current and potential end-users, our strategic partners and leaders in certain industry segments to identify market needs and define appropriate product enhancements and specifications.

Intellectual Property Rights

Sapiens, Magic, Michpal, TSG, ZAP Group and their subsidiaries rely on a combination of contractual provisions and intellectual property law to protect their proprietary technology. We believe that due to the dynamic nature of the markets in which we operate and software industries, factors such as the knowledge and experience of our management and personnel, the frequency of product enhancements and the timeliness and quality of our support services, build upon the protection offered by copyrights. We seek to protect the source code of our products as trade secret information and as unpublished copyright work, although in some cases, we agree to place our source code into escrow. We also rely on security and copy protection features in our proprietary software. We distribute our products under software license agreements that grant customers a personal, non-transferable license to use its products and contain terms and conditions prohibiting the unauthorized reproduction, reverse engineering or misuse of its products. In addition, we attempt to protect trade secrets and other proprietary information through agreements with employees, consultants and distributors. Sapiens' trademark rights include rights associated with its use of its trademarks, and rights obtained by registration of its trademarks. Sapiens' use and registration of its trademarks do not ensure that it has superior rights to others that may have registered or used identical or related marks on related goods or services. We have registrations for the mark "Sapiens" in the U.S., U.K., Benelux, Germany, France, Italy Switzerland, Israel, South Africa and the European Union. In the past we have registered trademarks and tradenames for many of our products both in the US and in the European Union, and we intend to continue to do so going forward. The initial terms of protection for our registered trademarks range from 10-20 years and are renewable thereafter.

Magic Software has obtained trademark registrations in South Africa, Canada, Israel, the Netherlands (Benelux), Switzerland, Thailand, the United Kingdom and the United States. The initial terms of the registration of its trademarks range from 10 to 20 years and are renewable thereafter. Magic Software's use and registration of its trademarks do not ensure that it would have superior rights to others that may have registered or used identical or related marks on related goods or services. Magic Software has registered a copyright for its software in the United States and Japan. In addition, it has registered copyrights for some of its manuals in the United States and has acquired an International Standard Book Number (ISBN) for some of its manuals. Magic Software's copyrights expire 70 years from date of first publication.

In accordance with industry practice, we do not otherwise hold any patents and rely upon a combination of trade secret, copyright and trademark laws and non-disclosure agreements, to protect our proprietary know-how. Our proprietary technology incorporates processes, methods, algorithms and software that we believe are not easily copied. Despite these precautions, it may be possible for unauthorized third parties to copy aspects of our products or to obtain and use information that we regard as proprietary. We believe that because of the rapid pace of technological change in the industry generally, patent and copyright protection are less significant to our competitive position than factors such as the knowledge, ability and experience of our personnel, new product development and ongoing product maintenance and support.

With respect to our defense sector activities, the IMOD usually retains specific rights to technologies and inventions resulting from our performance under Israeli government contracts. This generally includes the right to disclose the information to third parties, including other defense contractors that may be our competitors. Consistent with common practice in the defense industry, a majority of TSG's revenues in 2021, 2022 and 2023 were dependent on products incorporating technology that a government customer may disclose to third parties. When the Israeli government funds research and development, it usually acquires rights to data and inventions. We often may retain a non-exclusive license for such inventions. The Israeli government usually is entitled to receive royalties on export sales in relation to sales resulting from government financed development. However, if only the product is purchased without development effort, we normally retain the principal rights to the technology. Subject to applicable law, regulations and contract requirements, TSG attempts to maintain its intellectual property rights and provide customers with the right to use the technology only for the specific project under contract. Accordingly, TSG is bound by an agreement with the Ministry of Defense, dated June 26, 2019, for an indefinite period, under which it will pay royalties based on all receipts from security exports, after deducting certain expenses, as detailed in the agreement. As of the date of this report, the total amount of royalties that the company paid from its total sales within the framework of security exports is immaterial.

Regulatory Impact

The global financial and defense services industries served in particular by Sapiens, Matrix IT, Magic Software, Michpal, TSG and their subsidiaries are heavily subject to government and market regulation, which is constantly changing. Financial services companies must comply with regulations such as the Sarbanes-Oxley Act, Solvency II, Retail Distribution Review (known as RDR) in the United Kingdom, the European Union General Data Protection Regulation, or GDPR, in the EU, the CCPA, a statute that went into effect on January 1, 2020 in California (and similar privacy legislation in New York and elsewhere in the U.S.), the Dodd-Frank Act and other directives regarding transparency. In addition, many individual countries have increased supervision over local financial services companies. For example, regulators in Europe have been very active, motivated by past financial crises and the need for pension restructuring. Distribution of policies is being optimized with the increasing use of bank assurance (selling insurance through a bank's established distribution channels), supermarkets and kiosks (insurance stands). Increased activity – such as that occurring in Europe – would generally tend to have a positive impact on the demand for our software solutions and services. Nevertheless, insurers are cautiously approaching spending increases, and while many companies have not taken proactive steps to replace their software solutions in recent years, many of them are now looking for innovative, modern replacements to meet the regulatory changes.

Matrix IT's and Magic Software's IT businesses are generally positively affected by regulatory reform and other regulatory changes with respect to banking, insurance and telecommunications in Israel, as such reforms and changes create demand for specific IT solutions, often in a set, short time frame. In particular, regulation on large financial institutions operating in the Israeli financial market is continuously increasing, as a means of reducing the risk associated with the activities of such financial institutions and increasing transparency and increases the demand for Matrix IT's and Magic Software's services offering for entities that become subject to such supervision. Banks' entry into the sphere of offering advice with respect to pension, insurance and other financial products has also generated demand for Matrix IT's IT solutions, given the increased supervision of the Israeli Securities Authority that is triggered by such activities, although the pace at which such demand has grown has been relatively slower. Enhanced disclosure requirements for banks and financial institutions in the Israeli market, such as those published with respect to the required capital liquidity of banks in Israel, have also been generating demand for new IT solutions that Matrix offers. Matrix IT's business is also affected by changes in regulations of the U.S Securities and Exchange Commission, the Financial Industry Regulatory Authority, the Commodity Futures Trading Commission, the National Futures Association, the Federal Energy Regulatory Commission, with respect to requirements relating to Know Your Customer, Customer Identification Programs, Anti-Money Laundering and Fraud Prevention.

In recent years, there has been greater focus on core banking issues, and today a number of banks are in the process of undergoing a gradual examination / replacement of the traditional core systems. The financial market is also facing significant changes and opportunities for the IT market in light of the Strum Reform and its implications for the banking market, credit card companies and other relevant players in the financial market. In the insurance industry, there is a delay in decision making based on the prolonged selling process of some of the companies, and in light of the worsening of the capital adequacy ratios and actuarial reserves that are required by regulators and which affect the profitability of the companies, their ability to distribute a dividend or allocate budgets for IT investments as in the past.

With respect to our defense sector activities, we operate under laws, regulations and administrative rules governing defense and other government contracts, mainly in Israel. Some of these carry major penalty provisions for non-compliance, including disqualification from participating in future contracts. In addition, our participation in governmental procurement processes in Israel, the United States and other countries is subject to specific regulations governing the conduct of the process of procuring defense and homeland security contracts.

Government Contracting Regulations. We operate under laws, regulations, administrative rules and other legal requirements governing defense and other government contracts, mainly in Israel. Some of these legal requirements carry major penalty provisions for non-compliance, including disqualification from participating in future contracts. In addition, our participation in governmental procurement processes in Israel, the United States and other countries is subject to specific regulations governing the conduct of the process of procuring defense and homeland security contracts, including increasing requirements in the area of cyber production and information assurance.

Israeli Export Regulations. Israel's defense export policy regulates the sale of a number of our systems and products, which are developed and marketed by our affiliated company TSG. Current Israeli policy encourages exports to approved customers of defense systems and products such as ours, as long as the export is consistent with Israeli government policy. Subject to certain exemptions, a license is required to initiate marketing activities. We also must receive a specific export license for defense related hardware, software and technology exported from Israel. Israeli law also regulates export of "dual use" items (items that are typically sold in the commercial market but that also may be used in the defense market).

Procurement Regulations. Solicitations for procurements by governmental purchasing agencies in Israel, the United States and other countries are governed by laws, regulations and procedures relating to procurement integrity, including avoiding conflicts of interest, corruption, human trafficking and conflict minerals in the procurement process. Such regulations also include provisions relating to information assurance and for the avoidance of counterfeit parts in the supply chain.

Civil Aviation Regulations. Several of the products sold by TSG for commercial aviation applications are subject to flight safety and airworthiness standards of the U.S. Federal Aviation Administration (FAA) and similar civil aviation authorities in Israel, Europe and other countries.

Buy-Back. As part of their standard contractual requirements for defense programs, several of our customers may include "buy-back" or "offset" provisions. These provisions are typically obligations to make, or to facilitate third parties to make, various specified transactions in the customer's country, such as procurement of defense and commercial related products, investment in the local economy and transfer of know-how.

Matrix IT's and Magic Software's businesses have not been impacted to a material extent by government regulations.

Environmental, Social & Governance Matters

Our subsidiaries place an emphasis on, and devote considerable time towards, business responsibility, sustainability, and delivering value for their respective customer base, employees, investors, suppliers, and each of their respective communities. This requires that we conduct our business in accordance with all applicable laws and regulations, and to adhere to outstanding ethical business practices. Our subsidiaries have developed a strong set of corporate values that inspire ethical behavior throughout their decision-making process and that promote one of their business objectives of bringing together a diverse group with the unique skill sets, knowledge, and talents to effectuate our vision. For example, Sapiens specifically is proud to encourage female advancement in its company, with 38% of its executive leadership consisting of women in 2023. Matrix specifically is also proud to foster a strong female voice in its company, with 51% of its overall human capital resources consisting of women in 2023. We strive to grow women's representation within our operations.

C. Organizational Structure

Formula is the parent company of the Formula Group.

The following table presents certain information regarding the control and ownership of our directly held investments in subsidiaries and affiliates, as of April 30, 2024.

Subsidiaries and affiliate	Country of Incorporation	Percentage of Ownership
Matrix IT Ltd.	Israel	48.2%
Sapiens International Corporation N.V.	Cayman Islands	43.6%
Magic Software Enterprises Ltd.	Israel	46.7%
Michpal Micro Computers (1983) Ltd.	Israel	100.0%
TSG IT Advanced Systems Ltd.	Israel	50.0%
InSync Staffing Solutions, Inc.	Delaware	90.1%
Ofek Aerial Photography Ltd	Israel	80%
Zap Group Ltd.	Israel	100%
Shamrad Electronic (1997) Ltd	Israel	100%

The common shares of Sapiens and the ordinary shares of Magic Software are each traded on the Nasdaq Global Select Market and on the TASE, and the ordinary shares of Matrix are traded on the TASE.

D. Property, Plants and Equipment

Formula's headquarters, as well as the headquarters and principal administrative, finance, sales, marketing and research and development office of Magic Software, are located in Or-Yehuda, Israel, a suburb of Tel Aviv. Magic Software leases its and our office space, constituting approximately 32,404 square feet, under a lease agreement entered in November 2019. The lease expires in June 2033, with an option by Magic Software to extend for an additional two 5-year term. In 2023, Magic Software paid \$0.7 million under that lease. In addition, Magic Software subsidiaries lease office spaces in the United States, Israel, Europe, India, Japan and South Africa. In 2023, Magic Software's rent costs for those additional facilities totaled \$4.1 million, in the aggregate. We believe that Magic and our existing facilities are adequate for our current needs.

Matrix leases approximately 710,418 square feet of office space in various locations in Israel pursuant to leases of varying duration, including for a facility in Herzliya that serves as Matrix's corporate headquarters. In October 2018, Matrix renewed its corporate headquarters lease agreement with Ofer Brothers Properties Ltd. according to which it leases its office spaces in Herzliya, Israel. The lease term is expected to end in October 2023. On February 2024 Matrix extended the term until June 2024. The cost of rent is NIS 10 million annually (approximately \$2.8 million). In addition, Matrix leases an aggregate of approximately 53,700 square feet of office space in locations outside of Israel, in the United States, Bulgaria, Macedonia, Hungary, India and the UK. The lease terms for the spaces that Matrix currently occupies are generally three to four years. In 2023, Matrix announced that by June 2024, it would be moving to a new campus in the O-TECH complex in Kfar Saba. The new campus will spread over 172,200 square feet of office space across 14 building floors and 151,000 square feet of parking space across 5 building floors. The lease term for the new campus expires in January 2032, with an option by Matrix to extend for an additional two 5-year term with an annual rent cost of approximately NIS 20 million (approximately \$5.5 million). In the year ended December 31, 2023, Matrix's rent costs totaled NIS 25.4 million (approximately \$6.9 million), in the aggregate, for all of its leased offices. We believe that Matrix's existing facilities are adequate for its current needs.

Sapiens leases office space in India, Israel, the United States, Germany, Poland, Lithuania, Latvia, Denmark, Spain, The United Kingdom, China, Turkey and Portugal. The lease terms for the spaces that Sapiens currently occupies are generally one to five years, with the lease term for one site extending to 2030, another one to 2031 and a third one to 2036. Based on Sapiens' current occupancy, it leases the following amount of space in the following locations (offices over 500 square feet), which constitute Sapiens' primary locations: in India, approximately 213,598 square feet; in Israel, approximately 79,489 square feet of office space; in the United States, approximately 27,300 square feet (16,492 square feet that we use - 10,808 square feet is subleased); in Germany, approximately 19,527 square feet; in Poland, approximately 40,803 square feet; in Lithuania, approximately 17,655 square feet (14,519 square feet that we use - 3,136 square feet is subleased); in Latvia, approximately 14,271 square feet; in Denmark, approximately 7,860 square feet; in Spain, approximately 6,700 square feet; in the United Kingdom, approximately 7,374 square feet, and in China, approximately 5,180 square feet. Sapiens Israeli offices house its corporate headquarters, as well as its core delivery research and development activities. We believe that Sapiens' existing facilities are adequate for our current needs. In 2023, Sapiens' rent costs totaled \$8.7 million, in the aggregate, for all of its leased offices. We believe that Sapiens' existing facilities are adequate for its current needs.

Michpal leases approximately 45,000 square feet of office space in various locations in Israel pursuant to leases of varying duration, including for a facility in Tel-Aviv that serves as Michpal's corporate headquarters. During the year ended December 31, 2023, Michpal's rent costs totaled \$1.1 million, in the aggregate, for its leased office space.

Zap Group leases approximately 45,682 square feet of office space in various locations in Israel pursuant to leases of varying duration, including for a facility in Petah-Tikva that serves as Zap Group's corporate headquarters. During the year ended December 31, 2022 Zap Group's rent costs totaled \$1.0 million, in the aggregate, for its leased office space.

Ofek leases approximately 18,600 square feet of office space in Netanya, Israel, under a lease agreement entered in March 2020 for a term of six (6) years. During the year ended December 31, 2023, Ofek's rent costs totaled \$0.1 million, for its leased office space.

We believe that our properties are adequate for our present use of them. If in the future we require additional space to accommodate our growth, we believe that we will be able to obtain such additional space without difficulty and at commercially reasonable prices.

As described in "Subsidiary Commitments" in Item 5.B below, while our subsidiaries and our affiliated companies have incurred liens on leased vehicles, leased equipment and other assets in favor of leasing companies, neither Formula nor any subsidiary has encumbered the real property that it uses in its operations.

We furthermore believe that there are no environmental issues that encumber our use of our facilities.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

Overview

We are a global software solutions and IT professional services holdings company that is principally engaged through our directly held investees in providing proprietary and non-proprietary software solutions and IT professional services, software product marketing and support, computer infrastructure and integration solutions and learning and integration. We deliver our solutions in numerous countries worldwide to customers with complex IT services needs, including a number of “Fortune 1000” companies.

Since our inception, we have acquired effective controlling interests, and have invested, in companies which are engaged in the IT solutions and services business. We, together with our investees, are known as the Formula Group.

Other than in our joint control in TSG in which each of we and Israeli Aerospace Industries Ltd. holds 50% of its voting power, we currently have effective control under IFRS 10 in each of our other investees, Matrix IT, Sapiens, Magic Software, Michpal, Ofek Aerial Photography, InSync, Shamrad Electronics and Zap Group, despite the lack of absolute majority of voting power in Matrix IT, Magic Software and Sapiens. As a result of our effective control in these investees as of December 31, 2023 and in accordance with IFRS 10, we consolidated their financial results with ours throughout the period covered by the financial statements included in Item 18 of this annual report. Prior to our transition to reporting under IFRS, we consolidated investees in which we held an equity interest only if we held a controlling interest in those companies. Under IFRS 10, we may consolidate entities in which we have effective control. For further information, please see Note 2(3) to our consolidated financial statements included in Item 18 of this annual report.

Except for providing our investees with our management, technical expertise and marketing experience to help them create a consecutive positive economic impact and long-term value and direct their overall strategy through our active involvement, we do not conduct independent operations at our parent company level. Our operating results are, and have been, directly influenced by the business operations of our subsidiaries and affiliated company.

Our consolidated financial statements for the years ended December 31, 2022 and 2023 are prepared in accordance with IFRS. We have presented herein consolidated statements of financial position that comply with IFRS applicable as of December 31, 2022 and 2023. Our consolidated statements of profit or loss presented herein in IFRS cover the years ended December 31, 2021, 2022, and 2023.

We recognize revenues in two categories: the delivery of software services and the delivery of proprietary software solutions and related services. All of our investees, recognize revenues from the delivery of software services, and most of them recognize revenues in both revenue categories. For ease of reference, we have separated our subsidiaries into these categories in accordance with the category in which each subsidiary has earned most of its revenues (although each type of revenue is nevertheless recorded according to actual revenue type, rather than based on strict, subsidiary-demarcated categories).

Our functional and reporting currency

Until December 31, 2019, the currency of the primary economic environment in which our operations on a standalone basis were conducted was the dollar. Following an examination and reevaluation of the primary economic environment in which we currently operate and expects to continue operating and, taking into consideration the recent trends and our forward-looking business strategy, in accordance with the International Accounting Standard 21 (IAS 21), we concluded that the currency of the primary economic environment in which our operations on a standalone basis are currently conducted is the NIS. The functional currencies applied by our investees which are consolidated in these financial statements are the currencies of the primary economic environment in which each one of them operates. We have elected to use the dollar as our reporting currency for all years presented since we believe that financial statements in U.S dollars provide more relevant information to our investors and users of the financial statements.

Assets, including fair value adjustments upon acquisition, and liabilities of an investee which is a foreign operation, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and, accordingly, the exchange rate differences from these loans (net of the tax effect) are recorded in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences, other than those capitalized to qualifying assets or accounted for as hedging transactions in equity, are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

For those subsidiaries whose functional currency has been determined to be their local currency, assets and liabilities are translated at year-end exchange rates and statement of income items are translated at average exchange rates prevailing during the year. Such translation adjustments are recorded as a separate component of accumulated other comprehensive income (loss) in equity.

A. Operating Results

This section presents an analysis of our results of operations, on a comparative basis, for the years ended December 31, 2023 and 2022. We have omitted herein a comparative analysis of our results of operations for the years ended December 31, 2021 and 2022. In order to view that latter analysis, please see “Item 5. Operating and Financial Review and Prospects—A. Operating Results—Year Ended December 31, 2022 Compared to Year Ended December 31, 2021” in our Annual Report on Form 20-F for the year ended December 31, 2022, which we filed with the SEC on May 15, 2023, which analysis is incorporated by reference herein.

Year Ended December 31, 2023 Compared to Year Ended December 31, 2022

The following tables set forth certain data from our statement of profit or loss for the years ended December 31, 2022 and 2023, as well as such data as a percentage of our revenues for those years. The data has been derived from our audited consolidated financial statements included elsewhere in this annual report. The operating results for the below years should not be considered indicative of results for any future period. This information should be read in conjunction with the audited consolidated financial statements and notes thereto included in this annual report.

Statements of Profits or Loss
(U.S. dollars, in thousands)

	2022	2023
Revenues	\$ 2,572,357	\$ 2,620,903
Cost of revenues	1,949,892	1,977,192
Gross profit	622,465	643,711
Research and development expenses, net	72,129	77,968
Selling, marketing, general and administrative expenses	317,956	326,375
Capital gain from realization of a Matrix IT's subsidiary	44,260	-
Operating income	276,640	239,368
Financial expenses	(27,216)	(42,134)
Financial income	7,286	13,800
Pre-tax income before share of profits of companies accounted for at equity, net	256,710	211,034
Taxes on income	55,235	46,075
Share of profits of companies accounted for at equity, net	(1,808)	773
Net income	\$ 199,667	\$ 165,732
Attributable to:		
Equity holders of the Company	81,393	64,014
Non-controlling interests	118,274	101,718

**Statement of Profits or Loss as a
Percentage of Revenues**

	2022	2023
Revenues	100%	100%
Cost of revenues	75.8%	75.4%
Gross profit	24.2%	24.6%
Research and development expenses, net	2.8%	3.0%
Selling, marketing, general and administrative expenses	12.3%	12.5%
Capital gain from realization of a Matrix IT's subsidiary	1.7%	-
Operating income	10.8%	9.1%
Financial expenses	(1.1)%	(1.6)%
Financial income	0.3%	0.5%
Pre-tax income before share of profits of companies accounted for at equity, net	10.0%	8.0%
Taxes on income	2.1%	1.8%
Group's share of earnings of companies accounted for at equity, net	(0.1)%	0.1%
Net income	7.8%	6.3%
Attributable to:		
Equity holders of the Company	3.2%	2.4%
Non-controlling interests	4.6%	3.9%

Revenues. Revenues in 2023 increased by approximately 1.9%, from \$2,572.4 million in 2022 to \$2,620.9 in 2023. Revenues from the two categories of our operations were as follows: revenues from the delivery of software services increased by approximately 0.8%, from \$1,912.9 million in 2022 to \$1,927.5 million in 2023, and revenues from the sale of our proprietary software products and related services increased by approximately 5.1%, from \$659.5 million in 2022 to \$693.4 in 2023.

Software Services Revenues

The increase in software services revenues was recorded across the following of our investees reporting under this revenue stream— Matrix, Michpal, Insync and Zap Group — and was primarily due to growth in their revenues as described below:

Matrix:

Matrix's revenues reported under this revenue stream increased from NIS 4,541.2 million (approximately \$1,353.6) in 2022 to NIS 5,086.4 (approximately \$1,380.3) in 2023, reflecting an increase of approximately 12.0% when measured in NIS, Matrix's local currency (compared to 2.0% when measured in U.S dollars). The increase in Matrix's revenues, when measured in NIS, reflected an increase in almost all of Matrix's principal areas of operations, excluding a 16.8% decrease recorded in Matrix's training and integration business segment, when measured in NIS, resulting mainly from overall decrease in the demand for training activities, compared to last year in line with the decrease in the demand for employees in the high-tech sector in Israel in 2023. In addition, the training activity was adversely affected by Israel's Home Front Command declared limitations, during the first weeks of the war, which limited organizations' capabilities to hold frontal courses at their facilities from the fear of mass casualty events.

The increase in Matrix revenues was mainly attributable to each of the following: (1) an increase of approximately 17.3% in Matrix's Information Technologies (IT) Software solutions and services in Israel from NIS 2,435.4 million (approximately \$725.9) in 2022 to NIS 2,856 million (approximately \$775.0) in 2023; (2) an increase of approximately 6.3% in Matrix's computer infrastructure and integration solutions from NIS 1,345.6 million (approximately \$401.1 million) in 2022 to NIS 1,431 million (approximately \$388.3) in 2023; (3) an increase of approximately 10.2% in Matrix's Information Technologies (IT) Software solutions and services in the United States from NIS 434.3 million (approximately \$129.4 million) in 2022 to NIS 478.4 million (approximately \$129.8) in 2023; and (4) an increase of approximately 17.8% in Matrix's Software product marketing and support from NIS 249.9 million (approximately \$74.5 million) in 2022 to NIS 294.2 million (approximately \$79.8) in 2023. The increase was offset, in part, by a decrease of 16.8% in Matrix's training and integration from NIS 207.6 million (approximately \$61.9 million) in 2022 to NIS 172.8 million (approximately \$46.9 million) in 2023.

The increase in Matrix's overall revenues was also due to: (A) the inclusion of the first full year of revenues of RDT Equipment and Systems (1993) Ltd. (consolidated upon acquisition by Matrix as of June 2022) and (B) the inclusion for the first time of revenues during 2023 of Zebra AGR Technologies Ltd. (consolidated upon acquisition by Matrix as of January 2023).

Magic Software:

Magic Software's revenues, reported under this revenue stream, decreased by approximately 6.9% from \$489.2 million in 2022 to \$455.5 million in 2023, primarily attributable to (1) a decrease of \$54.1 million in Magic Software professional services in North America and (2) a decrease of \$19.0 million mainly due to the devaluation of the NIS versus U.S dollar. The decrease Magic Software experienced in 2023 in North America, resulted mainly from its largest revenue generating client, which without any advance notification and due to internal reasons unrelated to Magic Software's services, decided during the third quarter of 2023 and going forward to immediately suspend significant parts of its active time and materials-based project, this was offset by i) first time consolidation of Magic Software's subsidiary KMT acquired on June 8, 2023 which contributed \$4.4 million to its revenues and ii) a strong demand from existing customers in Israel for Magic Software's professional services mainly in the financial and defense sectors .

InSync:

InSync's revenues increased by approximately 14.6% from \$46 million in 2022 to \$52.7 million in 2023. The increase in Insync revenues was primarily attributable to the first time full-year consolidation of Bear Staffing Services Corporation (consolidated upon acquisition by Insync as of December 12, 2022).

Michpal:

Michpal's revenues, reported under this revenue stream, increased by approximately 8% from \$10.5 million in 2022 to \$14.1 million in 2023. The increase in Michpal's revenues reported under this revenue stream was primarily attributable to the inclusion for the first time of revenues during 2023 of Emalogic Software Ltd., consolidated upon acquisition by Michpal as of June 22, 2023.

ZAP Group:

Zap Group's revenues, reported under this revenue stream, increased by approximately 34.2% from \$9.2 million in 2022 to \$9.9 million in 2023. The increase in Zap Group's revenues reported under this revenue stream was primarily attributable to the inclusion of the first full year of revenues of N.C Marketing and Advertising Ltd. (also known as "Safra digital marketing", consolidated upon acquisition by Zap Group as of December 2022) and Marcomit Ltd (consolidated upon acquisition by Zap Group as of December 2022).

Shamrad Electronic:

Shamrad Electronics' revenues, reported under this revenue stream, increased by approximately 257% from \$3.7 million in 2022 to \$13.2 million in 2023. The increase in Shamrad Electronics' revenues reported under this revenue stream was primarily attributable to the inclusion of the first full year of revenues of Shamrad Electronics' (consolidated upon acquisition by the Company as of On October 2, 2022) and significant increase in demand for Shamrad Electronics for announcement and alarm systems and electronic security systems resulted from the "Iron Swords War".

Proprietary Software Products and Related Services Revenues

The increase in revenues from proprietary software products and related services was primarily attributable to the increase of Sapiens revenues by approximately 8.4% from \$474.7 million in 2022 to \$514.6 million in 2023; offset by (A) the decrease by approximately 20.8%, from \$39.4 million in 2022 to \$31.2 million in 2023, in Zap Group's revenues, reported under this revenue stream, resulting from a decrease in revenues of \$2.9 million resulting from devaluation of the NIS in relation to the U.S dollar alongside a decrease in the demand for Zap Group's advertising services mainly resulting from the "Iron Swords War".

Sapiens:

Sapiens' revenues increased by \$39.8 million, or 8.4%, to \$514.6 million for the year ended December 31, 2023 from \$474.7 million for the year ended December 31, 2022. The increase in revenues of approximately \$39.8 million for the year ended December 31, 2023 was primarily attributable to Sapiens' core solutions. Sapiens' revenues in North America increased by \$14.7 million, or 7.4%, to \$212.2 million for the year ended December 31, 2023 from \$197.5 million for the year ended December 31, 2022. That increase was attributable to an organic growth of all Sapiens' insurance products. Sapiens' revenues in Europe increased by \$24.4 million, or 10.5%, to \$257.2 million for the year ended December 31, 2023 from \$232.8 million for the year ended December 31, 2022. That increase was primarily attributable to the organic growth of Sapiens' core business P&C and L&P. Sapiens' revenues in the rest of the world increased by \$0.7 million, or 1.7%, to \$45.2 million for the year ended December 31, 2023 from \$44.4 million for the year ended December 31, 2022.

Michpal:

Michpal Group's revenue reported under this revenue stream increased from NIS 96.7 million (approximately \$28.8 million) in 2022 to NIS 105.2 million (approximately \$28.6 million in 2023), reflecting an increase of 8.8% when measured in NIS. The increase in revenues of approximately NIS 8.5 million for the year ended December 31, 2023 was primarily attributable to increased demand for Michpal's group payroll and financial solutions.

Magic Software:

Magic Software's revenues, reported under this revenue stream, increased by approximately 2.5% from \$77.6 million in 2022 to \$79.6 million in 2023. The increase in Magic Software's revenues, reported under this revenue stream was primarily attributable to increased demand for Magic Software's software solutions and third-party products.

A breakdown of our overall revenues into (i) proprietary software products and related services revenues, and (ii) software services revenues for the years ended December 31, 2022 and 2023, the percentage those respective categories of revenues constituted out of our total revenues in those years, and the percentage change for each such category of revenues from 2022 to 2023, are provided in the below table:

Revenue category	Year ended December 31, 2022		Year-over Year change (\$ in thousands)	Year ended December 31, 2023	
	Revenues	Percentage		Revenues	Percentage
Proprietary software products and related services	659,470	25.64%	5.1%	693,426	26.46%
Software services	1,912,887	74.36%	0.8%	1,927,477	73.54%
Total	2,572,357	100%	1.9%	2,620,903	100%

Revenues by geographical region

The dollar amount of our revenues attributable to each of the geographical regions in which we conduct our operations for the years ended December 31, 2022 and 2023, respectively, were as follows:

	Year ended December 31,	
	2022	2023
	(\$ in thousands)	
Israel	\$ 1,571,035	1,600,763
International:		
United States	680,325	644,918
Europe	262,303	315,081
Africa	26,692	26,035
Japan	11,333	11,881
Other (mainly Asia pacific)	20,669	22,225
Total	\$ 2,572,357	2,620,903

Cost of Revenues. Cost of revenues consists primarily of compensation expense to employees and subcontractors, royalties and licenses payable to third parties, amortization of acquired technologies, capitalized software and depreciation, cloud-related cost, and hardware and other materials costs. Cost of revenues increased by 1.4% from \$1,949.9 million in 2022 to \$1,977.2 million in 2023. As a percentage of total revenues, costs of revenues in 2022 and 2023 decreased from 75.8% in 2022 to 75.4%, in 2023.

Our proprietary software solutions and related services sales are generally characterized by a higher gross margin than sales of our software services. The cost of revenues for proprietary software solutions and related services increased from \$346.8 million in 2022 to \$365.6 million in 2023. As a percentage of our proprietary software solutions and related services revenues, costs of revenues for proprietary software solutions and related services remained relatively at 52.7% in 2023 compared to 52.3% in 2022.

The cost of revenues for software services increased from \$1,605.5 million in 2022 to \$1,611.6 million in 2023. As a percentage of software services revenues, costs of revenues for software services remained relatively stable, at 83.6% in 2023 compared to 83.9% in 2022.

Matrix:

Matrix's cost of revenues increased by approximately 11.7%, when measured in NIS, Matrix's local currency, from NIS 4,000.7 million (approximately \$1,192.7 million) in 2022 to NIS 4,467.9 million (approximately \$1,212.6 million) in 2023. The increase in absolute cost of revenues was in line with the increase in Matrix revenues. The level of Matrix's cost of revenues as a percentage of its revenues remained relatively stable these last two years, at 85.6% in 2022 and 85.4% in 2023 (when measured in NIS).

Matrix's cost of revenues for each of the years ended December 31, 2022 and 2023 does not include amounts of stock-based compensation.

Sapiens:

Sapiens' cost of revenues increased by \$19.5 million, or 7.1%, to \$292.0 million for the year ended December 31, 2023, as compared to \$272.4 million for the year ended December 31, 2022. The increase was mainly due to an increase in the number of delivery employees compared to 2022. Cost of revenues amounted to 56.8% as a percentage of Sapiens' revenues during the year ended December 31, 2023, which was a decrease by 60 basis points from the corresponding percentage for the year ended December 31, 2022 measured at 57.4%.

Sapiens' cost of revenues for each of the years ended December 31, 2022 and 2023 does not include amounts of stock-based compensation.

Magic Software:

Magic Software's cost of revenues decrease by approximately 7.1%, from \$411.4 million in 2022 to \$382.1 million in 2023. The decrease in absolute cost of revenues was in line with the decrease in revenues by 5.6% year over year, from \$566.8 million recorded in 2022 to \$535.1 million recorded in 2023. Cost of revenues amounted to 71.4% as a percentage of Magic Software's revenues during the year ended December 31, 2023, which was a decrease by 120 basis points from the corresponding percentage for the year ended December 31, 2022 measured at 72.6%.

Magic Software's cost of revenues for each of the years ended December 31, 2022 and 2023 does not include amounts of stock-based compensation.

InSync:

InSync's cost of revenues increased by approximately 13.1% from \$39.4 million in 2022 to \$44.5 million in 2023. The increase in absolute cost of revenues was in line with the increase in revenues by 14.6% year over year, from \$46 million in 2022 to \$52.7 million in 2023. Cost of revenues amounted to 84.4% as a percentage of Insync's revenues during the year ended December 31, 2023, which was a decrease by 110 basis points from the corresponding percentage for the year ended December 31, 2022 measured at 85.5%. Insync's cost of revenues for each of the years ended December 31, 2022 and 2023 does not include amounts of stock-based compensation.

ZAP Group:

Zap Group's cost of revenues increased by approximately 12.9% from \$17.0 million in 2022 to \$19.2 million in 2023. Cost of revenues amounted to 42.4% as a percentage of Zap Group's revenues during the year ended December 31, 2023, which was an increase by 830 basis points from the corresponding percentage for the year ended December 31, 2022 measured at 34.1%. The increase in Zap Group's cost of revenues as a percentage of its revenues was mainly attributable to the first full year of cost of revenues of N.C Marketing and Advertising Ltd. (also known as "Safra digital marketing", consolidated upon acquisition by Zap Group as of December 2022) and Marcomit Ltd (consolidated upon acquisition by Zap Group as of December 2022) which carry lower levels of gross margins compared to Zap Group other lines of business which have also experienced lower levels of demand in 2023 compared to 2022 primarily resulting from the continued challenging economic environment on the back of high levels of interest rates, persistent inflation and reduced capital spending along with the consequences of the outbreak of the "Iron Swords War".

Zap Group's cost of revenues for each of the years ended December 31, 2022 and 2023 does not include amounts of stock-based compensation.

Shamrad Electronic:

Shamrad Electronics' cost of revenues, increased by approximately 278.0% from \$2.9 million in 2022 to \$10.9 million in 2023, in line with the increase in Shamrad Electronics' revenues which grew by 274.4% year over year. The increase in Shamrad Electronics' cost of revenues was primarily attributable to the inclusion of the first full year of operations of Shamrad Electronics' (consolidated upon acquisition by the Company as of On October 2, 2022) and significant increase in demand for Shamrad Electronics for announcement and alarm systems and electronic security systems resulted from the "Iron Swords War". Shamrad Electronics' cost of revenues amounted to 78.9% as a percentage of Insync's revenues during the year ended December 31, 2023, which was a increase by 80 basis points from the corresponding percentage for the year ended December 31, 2022 measured at 78.1%.

Operating Expenses:

Research and Development Expenses, net. Research and development, or R&D, expenses consist primarily of compensation expense to employees and subcontractors engaged in research and development. Research and development expenses, net, consist of research and development expenses, gross, less capitalized software costs.

Research and development expenses, gross, increased from \$81.3 million in 2022 to \$88.0 million in 2023, mainly due to: an increase in the number of R&D employees in 2023 compared to 2022. Capitalization of software costs in 2022 and 2023 was attributable to our subsidiaries engaged in providing proprietary software solutions (i.e., Magic Software and certain of its subsidiaries, and Sapiens and certain of its subsidiaries). Research and development expenses, net, increased from \$72.1 million in 2022 to \$78.0 million in 2023, mainly due to the factors described above.

As a percentage of revenues, research and development expenses, net, slightly increased from 2.8% in 2022 to 3.0% in 2023. Research and development expenses for the years ended December 31, 2023 and 2022 do not include amounts of stock-based compensation.

Selling, Marketing General and Administrative Expenses. Selling, marketing, general and administrative, or SMG&A, expenses consist primarily of cost of compensation expense to employees and subcontractors involved in sales, marketing, management and administrative functions, travel expenses, selling expenses, rent, utilities, communications expenses, expenses related to external consultants, depreciation, amortization and other expenses. Selling, marketing, general and administrative expenses increased from \$318.0 million in 2022 to \$326.4 million in 2023. As a percentage of revenues, SMG&A slightly increased from 12.4% in 2022 to 12.5% in 2023.

The increase in SMG&A expenses in 2023 was mainly attributable to: (i) an increase in Matrix's SMG&A by \$4.9 million resulting from (A) an increase of \$7.9 million resulting from an increase in the number of sales and marketing employees compared to 2022 in line with the increase recorded in Matrix revenues (B) an increase of \$4.1 million in stock based compensation costs and (C) an increase of \$1.6 million in intangible assets amortization costs resulting from acquisitions, which was offset in part by a decrease by \$8.0 million resulting from the appreciation of the USD compared to the NIS in 2023; (ii) an increase in Magic Software's SMG&A from \$83.5 million in 2022 to \$85.6 million in 2023, which was mainly attributable to (A) an increase of \$1.7 million in Magic Software stock based compensation costs from \$2.1 million in 2022 to \$3.8 million in 2023, (B) and increase of \$1.7 million resulted from the first full year inclusion of The Goodkind Group, LLC (consolidated upon acquisition as of August 2022) and the first-time inclusion of KMT (consolidated upon acquisition as of June 2023) and (C) an increase of \$1.1 million related to costs recorded with respect to increase in valuation of contingent consideration related to acquisitions; (iii) an increase in Insync's SMG&A expenses by approximately \$3.0 million resulting from first-time full year inclusion of Services Corporation (consolidated upon acquisition by Insync as of December 12, 2022), including \$0.4 million recorded with respect to intangible assets amortization; (iv) an increase in Sapiens' SMG&A by \$1.6 million resulting from an increase in the number of sales and marketing employees compared to 2022; (v) an increase in Shamrad's SMG&A expenses by approximately \$1.0 million resulting from first-time full year inclusion of Shamrad Electronics (consolidated upon acquisition by the Company as of On October 2, 2022) offset by a decrease of \$4.4 million recorded in Zap Group's resulting from (A) a decrease of \$1.4 million resulting from a decrease in the number of sales and marketing employees compared to 2022, (B) a decrease of \$0.7 million resulting from a decrease in valuation of contingent consideration related to acquisitions, (C) a decrease of \$2.3 million resulting from the appreciation of the USD compared to the NIS in 2023 and (D) a decrease of \$0.5 million resulting from a government compensation benefit extended by the Israeli government to cover loss of business resulted from the outbreak of the "Iron Swords War".

As a percentage of total revenues, our SMG&A slightly increase from 12.4% in the year ended December 31, 2022, to 12.5% for the year ended December 31, 2023.

Consolidated stock-based compensation expenses recorded under selling, marketing general and administrative expenses for the years ended December 31, 2023 and 2022 amounted to \$18.6 million and \$15.0 million, respectively.

Operating Income. Our operating income decreased from \$276.6 million in 2022 to \$239.4 million in 2023. Operating income in 2022 included a capital gain from the disposition of a Matrix's subsidiary (Infinity Labs R. & D. Ltd) for a total consideration of NIS 154.5 million (approximately \$46.2 million), which resulted in a capital gain of \$44.3 million. Excluding the impact of capital gain resulted from the sale of Infinity Labs, as a percentage of revenue, our operating income remained stable and changed from 9.0% in 2022 compared to 9.1% in 2023. The increase in our operating income during the year ended December 31, 2023 relative to the year ended December 31, 2022 as an absolute amount was attributable to the various gross profit and operating expenses trends described above.

Financial Expenses, net. Financial expenses increased from \$27.2 million in 2022 to \$42.1 million. Financial expenses, net increased from \$19.9 million in 2022 to \$28.3 million in 2023. Financial expenses are influenced by various factors, including: our cash balances; loan balances; outstanding debentures; changes in liabilities related to business combinations; changes in the exchange rate of the NIS against the dollar; changes in the exchange rate of the dollar against the Euro; and changes in the Israeli consumer price index, or CPI.

The increase in net financial expenses in 2023 was primarily attributable to (i) an increase in interest expenses on loans and borrowings from \$9.8 million to \$18.5 million resulting from increase interest rates level (ii) an increase in interest expenses attributed to IFRS 16 from \$4.8 million in 2022 to \$7.2 million in 2023, (iii) an increase in derivatives losses from \$1.1 million in 2022 to \$3.0 million in 2023 and (vi) in 2022, we had a one-time income from PPP loan forgiveness of \$1.5 million, offset, in part, by (vi) a decrease in net positive impact of foreign exchange differences and other financial expenses and bank deposits amounting to \$5.8 million.

Taxes on Income. Taxes on income decreased from \$55.2 million in 2022 to \$46.1 million in 2023, in line with the decrease in our income before taxes. As a percentage of pre-tax income, tax expenses amounted to approximately 21.8% in 2023, compared to 21.5% in 2022.

Share of profits (loss) of companies accounted for at equity, net. Share of profits (loss) of companies accounted for at equity, net, increased from a loss of \$1.8 million in 2022 to an income of \$0.8 million in 2023. Our share of loss of companies accounted for at equity, net in 2022 was mainly attributable to a loss recorded in TSG in 2022.

Net income attributable to non-controlling interests. Net income attributable to non-controlling interests includes the non-controlling interests held by other shareholders in our consolidated companies, which were not wholly owned by Formula during each of the periods indicated. Net income attributable to non-controlling interests decreased from \$81.4 million in 2022 to \$64.0 million in 2023, mainly due to (i) a decrease in Matrix's net income attributable to its shareholders from \$99.9 million recorded during the year ended December 31, 2022 to \$61.1 million recorded during the year ended December 31, 2023, primarily resulting from a \$17.7 million impact on our net income attributable to non-controlling interests recorded with respect to Matrix's capital gain, net of tax recorded in 2022 with respect to the sale of Infinity Labs and (ii) the various gross profit, operating and financial expenses trends described above.

Impact of Inflation and Currency Fluctuations on Results of Operations

Our financial statements are stated in U.S. dollars. However, most of our revenues and expenses from our software services revenue line are denominated in NIS and a substantial portion of our revenues and costs from our proprietary software products and related services revenue line are incurred in other currencies, particularly NIS, Euros, Danish Krone, Swedish Krona, Japanese yen, Indian rupee and the British pound. We also maintain substantial non-U.S. dollar balances of assets, including cash, accounts receivable, and liabilities, including accounts payable, debentures and debt to financial institutions. Therefore, fluctuations in the value of the currencies in which we do business relative to the U.S. dollar may adversely affect our business, results of operations and financial condition. For financial reporting purposes, we translate all non-U.S. dollar denominated transactions into dollars using the average exchange rate over the period during which the transactions occur, in accordance with IFRS. Therefore, we are exposed to the risk that the devaluation of the NIS relative to the U.S. dollar may reduce the revenue growth rate and profitability for our software services in dollar terms. The average of the daily representative exchange rates of the NIS to the dollar in 2022 and 2023, as reported by the Bank of Israel, was NIS 3.36 per \$1 U.S. dollar, and NIS 3.69 per \$1 U.S. dollar, respectively. Consequently, this trend decreased the dollar value of our NIS-based revenues and profitability for our Israeli software services in 2023 relative to 2022. On the other hand, a significant portion of our revenues from proprietary software products and related services is currently mainly denominated in U.S. dollars, Euros, Japanese yen, Danish Krone, Swedish Krona, Indian rupee and the British pound, whereas a substantial portion of our expenses relating to those products, principally salaries and related personnel expenses, are denominated in NIS or U.S. dollar. As a result, the devaluation of the Euro, Japanese yen, Danish Krone, Swedish Krona, Indian rupee and the British pound relative to the U.S. dollar (in which our financial results are reported) reduces the revenue growth rate and profitability for our proprietary software products and related services in dollar terms, thereby adversely affecting our operating results. From the perspective of expenses (and contrary to the trend involving software services), the devaluation of the NIS relative to the dollar, decreases the relative value, in U.S. dollars, of the NIS-denominated operating costs related to our proprietary software product revenues. That, therefore, increases our profitability and partially compensates for the negative effect that this movement has on our revenues and our profitability from our software services.

Since most of our expenses are incurred in NIS, the dollar cost of our operations also rises as a result of any increase in the rate of inflation in Israel, to the extent that such inflation is not offset, or is only offset on a lagging basis, by the devaluation (if any) of the NIS against the dollar during a relevant period of time. The average Israeli rate of inflation on an annual basis amounted to 2.80%, 5.26% and 2.96% for the years ended December 31, 2021, 2022 and 2023 respectively. In 2021, the NIS appreciated relative to the U.S. dollar, whereas in 2022 and in 2023 the NIS devaluated against the U.S. dollar (in each case, based on average of the daily representative exchange rates). Therefore, in 2021 the appreciation of the NIS relative to the U.S. dollar increased our operational results with respect to our operations carried out in Israel. In 2022 and in 2023, the depreciation of the NIS relative to the U.S. dollar decreased our operational results with respect to our operations carried out in Israel, along with the increase that would have otherwise been caused by the rise in inflation in Israel in 2022 and in 2023.

An increase in the rate of inflation in Israel may also have a material adverse effect on our financial results by increasing our operational expenses, as certain of our operating lease and rent agreements are denominated in NIS and are generally linked to the Israeli CPI, so to the extent that the Israeli CPI rises, so will our operational expenses.

Though, to date, we have not engaged in significant currency hedging transactions, we do periodically engage in certain economic hedging in order to help protect against fluctuation in foreign currency exchange rates. Instruments that we use to manage currency exchange risks may include foreign currency forward contracts. The purpose of our foreign currency hedging activities is to reduce our exposure, from the perspective of our profitability, to the risks that arise from the adverse impact that exchange rates bear on our revenues and expenses that are denominated in non-U.S. currencies. Instruments are used selectively to manage risks, but there can be no assurance that we will be fully protected against material foreign currency fluctuations. We do not use these instruments for speculative or trading purposes. In the future, we may enter into more or larger currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the NIS, Euro, Danish Krone, Swedish Krona, Japanese yen or British pound against the U.S. dollar, and from increases in the Israeli inflation rate. However, we cannot assure you that these measures will adequately protect us from the adverse effects of those fluctuations.

Following is a summary of the most relevant monetary indicators for the reported periods:

For the year ended December 31,	Inflation rate in Israel	Devaluation (appreciation) of NIS against the US\$*	Devaluation (appreciation) of Euro against the US\$*
	%	%	%
2021	2.8%	(6.0)%	(3.56)%
2022	5.26%	3.98%	10.96%
2023	2.96%	9.89%	(2.67)%

* Reflects the change in the daily exchange rate from the start of such year until the end of such year rather than the change in the average daily exchange rate over the course of that year relative to the previous year.

Effective Corporate Tax Rates in Israel

Tax regulations have a material impact on our business, particularly in Israel where we have our headquarters. The following is a summary of some of the current tax law applicable to companies in Israel, with special reference to its effect on us.

Corporate Tax

Generally, Israeli companies are subject to corporate tax on their taxable income. As of 2018 and thereafter, the corporate tax rate is 23%. However, the effective tax rate payable by a company that derives income from an AE, BE, PFE or a PTE, in each case, as defined and further discussed below, may be considerably lower. See “Law for the Encouragement of Capital Investments” in this Item 5.A below. In addition, Israeli companies are currently subject to regular corporate tax rate on their capital gains.

Besides being subject to the general corporate tax rules in Israel, certain of our Israeli subsidiaries have also, from time to time, applied for and received certain grants and tax benefits from, and participate in, programs sponsored by the Government of Israel, as described below.

Taxation of Non-Israeli Subsidiaries Held by an Israeli Parent Company

Non-Israeli subsidiaries of an Israeli parent company are generally subject to tax in their countries of residence under tax laws applicable to them in such countries. Such subsidiaries could also be subject to Israeli corporate tax on their income if they were to be managed and controlled from Israel. In such case, double taxation could ensue unless an applicable tax treaty provides applicable rules for relief from double taxation or such relief is available under internal law.

An Israeli parent company may also be required to include in its income on a current basis, as a deemed dividend, certain income derived by its subsidiaries under the Israeli Controlled Foreign Corporation rules, or CFC, regardless of whether such income is distributed or not. Under these rules, a non-Israeli subsidiary is considered to be a CFC, if, among other things, (i) a majority of the subsidiary’s means of control are held by Israeli residents, (ii) most of its revenues or income is passive (such as interest, dividends, royalties, rental income or income from capital gains) and (iii) such income is taxed at a rate that does not exceed 15%. An Israeli parent company that is subject to Israeli taxes on such deemed dividend income, may generally receive a credit for foreign taxes paid by its subsidiaries in their country of residence and for deemed foreign taxes to be withheld upon the actual distribution of such income.

Law for the Encouragement of Industry (Taxes), 5729-1969

The Law for the Encouragement of Industry (Taxes), 5729-1969 (the “**Industry Encouragement Law**”) provides several tax benefits for an “Industrial Company.” Pursuant to the Industry Encouragement Law, a company qualifies as an Industrial Company if it is an Israeli resident company which was incorporated in Israel and at least 90% of its income in any tax year (other than income from certain government loans) is generated from an “Industrial Enterprise” that it owns and is located in Israel or in the “Area,” in accordance with the definition under Section 3A of the Israeli Income Tax Ordinance (New Version) 1961, or the Ordinance. An “Industrial Enterprise” is defined as an enterprise which is held by an Industrial Company whose major activity, in a given tax year, is industrial production.

An Industrial Company is entitled to certain tax benefits, including:

- Amortization of the cost of the purchases of patents, or the right to use a patent or know-how that were purchased in good faith and used for the development or promotion of the Industrial Enterprise, over an eight-year period commencing on the year in which such rights were first exercised;
- the right to elect, under certain conditions, to file a consolidated tax return together with Israeli Industrial Companies controlled by it; and
- Expenses related to a public offering are deductible in equal amounts over three years beginning from the year of the offering.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that certain of our Israeli subsidiaries and affiliate currently qualify as Industrial Companies within the definition under the Industry Encouragement Law. We cannot assure you that they will continue to qualify as Industrial Companies or that the benefits described above will be available in the future.

Law for the Encouragement of Capital Investments, 5719-1959

The Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law, provides certain incentives for capital investments in a production facility (or other eligible assets). Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, referred to as an Approved Enterprise, or AE, a Benefitted Enterprise, or BE, or a Preferred Enterprise, or PFE, or a Special Preferred Enterprise, or “SPFE”, or a Preferred Technological Enterprise, or PTE, or a Special Preferred Technological Enterprise, or SPTE is entitled to benefits as discussed below. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the geographic location in Israel of the facility in which the investment is made. In order to qualify for these incentives, an AE, BE, PFE, SPFE PTE or SPTE is required to comply with the requirements of the Investment Law.

The Investment Law has been amended several times over the recent years, with the three most significant changes effective as of April 1, 2005 (referred to as the 2005 Amendment), as of January 1, 2011 (referred to as the 2011 Amendment) and as of January 1, 2017 (referred to as the 2017 Amendment). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment. However, companies entitled to benefits under the Investment Law as in effect up to January 1, 2011 were entitled to choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead, irrevocably, to forego such benefits and elect the benefits of the 2011 Amendment. The 2017 Amendment introduces new benefits for Technological Enterprises, alongside the existing tax benefits.

Tax benefits under the 2011 Amendment that became effective on January 1, 2011.

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a “Preferred Company” through its PFE (as such terms are defined in the Investment Law) as of January 1, 2011. A Preferred Company is defined as either (i) a company incorporated in Israel which is not wholly owned by a governmental entity or (ii) a limited partnership that (a) was registered under the Israeli Partnerships Ordinance and (b) all of its limited partners are companies incorporated in Israel, but not all of them are governmental entities; which has, among other things, PFE status and is controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income, or PFI, attributed to its PFE in 2011 and 2012, unless the PFE is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate was reduced to 12.5% and 7%, respectively, in 2013 and was increased to 16% and 9%, respectively, in 2014 until 2016. Pursuant to the 2017 Amendment, in 2017 and thereafter, the corporate tax rate for a PFE that is located in a specified development zone was decreased to 7.5%, while the reduced corporate tax rate for other development zones remains 16%. Income derived by a Preferred Company from a Special Preferred Enterprise, or SPFE (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or 5% if the SPFE is located in a certain development zone. As of January 1, 2017, the definition for SPFE includes less stringent conditions.

The classification of income generated from the provision of usage rights in know-how or software that were developed in a PFE, as well as royalty income received with respect to such usage, is subject, as PFE income, to the issuance of a pre-ruling from the Israel Tax Authority, or ITA, that stipulates that such income is associated with the productive activity of the PFE in Israel.

Dividends paid to Israeli shareholders out of PFI attributed to a PFE or to a Special PFE are generally subject to withholding tax at source at the rate of 20% (in case of non-Israeli residents - subject to the receipt in advance of a valid certificate from the ITA allowing for a reduced tax rate, 20%, or such lower rate as may be provided in an applicable tax treaty). However, if such dividends are paid to an Israeli company, no tax is required to be withheld (although, if such dividends are subsequently distributed to individuals or a non-Israeli company the aforesaid will apply).

Sapiens has received a new tax ruling from the ITA valid until December 31, 2024, according to which dividends paid to Israeli shareholders who are individuals and to non-Israeli shareholders (individuals and corporations) will be subject to withholding tax at source at the rate of 25% and in the case of Israeli resident corporations— 0%, regardless of the source of the dividends. We cannot guarantee that the tax ruling will be extended further beyond December 31, 2024.

On November 15, 2021, the Economic Efficiency Law (Legislative Amendments for Achieving Budget Targets for the 2021 and 2022 Budget Years), 2021, which we refer to as the Economic Efficiency Law, was enacted. This law established a temporary order, or the Temporary Order, allowing Israeli companies to release tax-exempt earnings, which we refer to as trapped earnings or accumulated earnings, that had accumulated until December 31, 2020, through a mechanism established for a reduced corporate income tax rate applicable to those earnings. In addition to reducing the corporate income tax (or CIT) rate, the Economic Efficiency Law amended Article 74 of the Investment Law, whereby effective from August 15, 2021, for any dividend distribution (including a dividend specified in Article 51B of the Investment Law) by a company which has trapped earnings, there is a requirement to allocate a portion of that distribution to the trapped earnings. Under the Temporary Order, the reduction of CIT applies to earnings that are released (with no requirement for an actual distribution) within a period of one year from the date of enactment of the Temporary Order. The reduction in the CIT is dependent on the proportion of the trapped earnings that are released relative to the total trapped earnings, and on the foreign investment percentage in the years the earnings were generated. Consequently, the larger the proportion of the trapped earnings that are released, the lower the tax in respect of the distribution. The minimum tax rate is 6%. Further, a company that elects to pay a reduced CIT is required to invest in its industrial enterprise a designated amount in accordance with the Economic Efficiency Law within a period of five years commencing from the tax year in which the election is made. The designated investment should be utilized for the acquisition of production assets, and/or investments in research and development and/or compensation to additional new employees.

In 2022, Sapiens elected to benefit from the Temporary Order and pay the reduced CIT as per the provisions of the Economic Efficiency Law in respect of its total accumulated tax-exempt earnings amounting to NIS 109 million (approximately \$35.0 million), and accordingly our deferred tax liability includes an amount of \$3.5 million. In 2022, the Sapiens filed its application for the Temporary Order and paid the required amount to the Israeli tax authority.

In November 2022, Magic Software also elected to benefit from the Temporary Order and filed its application for the Temporary Order and paid the required reduced CIT as per the provisions of the Economic Efficiency Law in respect of its total accumulated tax-exempt earnings amounting to NIS 25.0 million (approximately \$7.1 million), and accordingly recognized a tax liability of NIS 2.5 million (approximately \$0.7 million).

As of December 31, 2022 all of Sapiens' and Magic Software's trapped earnings were released.

New Tax benefits under the 2017 Amendment that became effective on January 1, 2017

The 2017 Amendment provides new tax benefits for two types of Technology Enterprises, as described below, and is in addition to the other existing tax beneficial programs under the Investment Law.

The 2017 Amendment provides that a technology company satisfying certain conditions will qualify as a PTE, and will thereby enjoy a reduced corporate tax rate of 12% on income that qualifies as Preferred Technology Income, or PTI, as defined in the Investment Law. The tax rate is further reduced to 7.5% for a PTE located in development zone "A". In addition, a Preferred Technology Company will enjoy a reduced corporate tax rate of 12% on capital gain derived from the sale of certain Benefited Intangible Assets (as defined in the Investment Law) to a related foreign company if the "Benefitted Intangible Assets" (as defined under the Investment Law) were acquired from a foreign company on or after January 1, 2017 for at least NIS 200 million, and the sale receives prior approval from the Israeli Innovation Authority ("IIA").

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a SPTE (an enterprise for which, among others, total consolidated revenues of its parent company and all subsidiaries is at least NIS 10 billion) and will thereby enjoy a reduced corporate tax rate of 6% on PTI regardless of the company's geographic location within Israel. In addition, a SPTE will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain "Benefited Intangible Assets" to a related foreign company if the Benefited Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017, and the sale received prior approval from IIA. A SPTE that acquires Benefitted Intangible Assets from a foreign company for more than NIS 500 million will be eligible for these benefits for at least ten years, subject to certain approvals as specified in the Investment Law.

We examined the impact of the 2017 Amendment and the degree to which certain of our Israeli subsidiaries will qualify as a PTE or SPTE, and the amount of PTI that we may have, or other benefits that we may receive, from the 2017 Amendment. Beginning in 2017, part of our Group's taxable income with respect to certain operations under certain of our Israeli subsidiaries are entitled to a preferred 12% tax rate under the 2017 Amendment. In addition, from 2019 onwards, certain of our Israeli subsidiaries are considered a SPTE and as such are entitled to a SPTE tax rate of 6%, as described above.

Tax Benefits and grants for Research and Development

Israeli tax law allows, under certain conditions, a tax deduction for research and development expenditures, including capital expenditures, for the year in which they are incurred. Such expenditures must relate to scientific research and development projects and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company's business and carried out by or on behalf of the company seeking such tax deduction. However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved by the relevant Israeli government ministry, but otherwise qualifying for deduction, are deductible over a three-year period.

Tax Reform - United States of America:

The U.S. Tax Cuts and Jobs Act of 2017 ("TCJA") was approved on December 22, 2017. This legislation makes significant changes to the U.S. Internal Revenue Code. Such changes include a reduction in the corporate tax rate and limitations on certain corporate deductions and credits, among other changes. The TCJA reduces the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. In addition, the TCJA makes certain changes to the depreciation rules and implements new limits on the deductibility of certain expenses and deduction.

Effective in 2022, the TCJA requires all U.S. companies to capitalize, and subsequently amortize R&E expenses that fall within the scope of Section 174 over five years for research activities conducted in the United States and over fifteen years for research activities conducted outside of the United States, rather than deducting such costs in the year incurred for tax purposes. Although Congress may defer, modify, or repeal this provision, potentially with retroactive effect, we have no assurance that Congress will take any action with respect to this provision. During 2022, Sapiens has accounted for the effects of the R&E capitalization, based on interpretation of the law as currently enacted. Accordingly, Sapiens increased its current tax expenses in 2022 against a corresponding deferred tax benefit in the same amount, resulting in no effect on the total taxes on income in the statements of income.

B. Liquidity and Capital Resources

Since inception, we have financed our growth and business primarily through cash provided by operations and through public debt and equity offerings, as well as through private and public debt and equity offerings of our subsidiaries. In addition, we finance our business operations through short-term and long-term loans and borrowings available under our credit facilities.

Current Outlook

We had cash and cash equivalents and short-term investments (including marketable securities) of \$569.1 million and \$528.2 million as of December 31, 2022 and 2023, respectively. At December 31, 2022, we had indebtedness to banks and others, including debentures, of \$647.7 million and \$541.3 million, respectively, of which \$226.2 million and \$218.9 million were current liabilities and \$421.5 million and \$322.4 million were long-term liabilities as of those respective dates. Included in the balance of our indebtedness to banks and others as of December 31, 2023, Formula standalone had indebtedness of \$158.5 million and \$122.5 million, in the aggregate, outstanding under Formula's secured debentures (Series A and Series C, respectively) which Formula sold in public offerings in Israel in September 2015 (extended in January 2018) and March 2019 (extended in April 2021 and August 2022), in each case, as described below.

We had cash and cash equivalents and short term deposit (including marketable securities) that were held outside of Israel and that would have been subject to income taxes if distributed as a dividend as of December 31, 2022 and 2023 in amounts of \$81.8 million and \$91.9 million, respectively.

Sources of Financing

Series A Secured Debenture Financings

In September 2015, Formula consummated a public offering of debentures in Israel. The two series of debentures issued by Formula in the public offering consisted of one series of debentures—the Series A Secured Debentures—that is secured by liens on the shares of Formula's subsidiaries (Matrix, Sapiens and Magic Software), and a second series—the Series B Convertible Debentures—that was convertible into ordinary shares of Formula. Both series of debentures were listed for trading only on the TASE. Of those two series, only the Series A Secured Debentures remain outstanding as of the current time.

In the public offering, NIS 102,260,000 (\$26.3 million) par value of Series A Secured Debentures were sold, which bear interest on the unpaid principal at a fixed annual rate equal to 2.8% (which may vary based on the credit rating of the debentures), which is paid on a semi-annual basis through July 2024. The principal is payable in eight equal annual installments beginning in July 2017 and ending in July 2024. The interest rate varies based on the credit rating of the Series A Secured Debentures. The net proceeds received by Formula from the issuance of the Series A Secured Debentures in September 2015 amounted to \$25.9 million (net of issuance expenses). The gross proceeds received by Formula from the issuance of all debentures in September 2015 (including from the Series B Convertible Debentures, which are no longer outstanding) were approximately NIS 229.8 million (\$58.6 million), in the aggregate.

January 2018 Private Placement

On January 31, 2018, Formula consummated a private placement to qualified investors in Israel, of an additional, aggregate NIS 150 million par value of Series A Secured Debentures at a price of NIS 1,034.7 for each NIS 1,000 principal amount. The aggregate gross proceeds totaled NIS 155.2 million (approximately \$45.6 million), excluding issuance costs of \$0.2 million. The terms of the Series A Secured Debentures sold in the private placement are identical in all respects to those of the Series A Secured Debentures sold in Formula's September 2015 public offering.

Series C Secured Debenture Financings

On March 31, 2019, Formula consummated a public offering in Israel of a new series of secured debentures—Series C Secured Debentures—in an aggregate NIS 300.0 million par value amount, at a price of NIS 1,000 for each unit of NIS 1,000 principal amount. The aggregate gross proceeds from the public offering totaled NIS 300.0 million (approximately \$82.6 million) excluding issuance costs of \$0.9 million. The Series C Secured Debentures are secured by liens on the shares of Formula’s subsidiaries and are listed for trading only on the TASE. Each Series C Debenture unit bears interest at a fixed annual rate equal to 2.29%, which interest will be paid out on a semi-annual basis. The principal amount of the Series C Debentures will be payable by Formula in seven annual installments from December 1, 2020 through December 1, 2026, the first five of which will each constitute 11% of the principal, and the final two of which will each constitute 22.5% of the principal.

The terms of the Series C Secured Debentures sold in the March 2019 public offering are substantially similar to those of the Series A Secured Debentures sold in Formula’s September 2015 public offering and January 2018 private placement.

April 2021 Private Placement

On April 12, 2021, Formula consummated a private placement to qualified investors in Israel of an aggregate NIS 160 million (approximately \$48.6 million) principal amount of its non-convertible Series C Secured Debentures at a price of NIS 1,037 for each NIS 1,000 principal amount. The total aggregate gross proceeds received by Formula from the investors was NIS 165.92 million (approximately \$50.4 million), out of which NIS 1.7 million was attributed to interest payable (approximately \$0.5 million). Debt premium of NIS 4.4 million (approximately \$1.0 million) net of issuance costs of NIS 0.9 million (approximately \$0.3 million) were allocated to the Formula Systems Series C Secured Debentures and are amortized as financial income over the remaining term of Formula Systems Series A Secured Debentures due in 2026.

The additional debentures were sold by means of an increase in the outstanding principal amount of Series C Secured Debentures. As a result of this private placement, the total outstanding principal amount of the Series C Debentures increased to approximately NIS 427 million. The Series C Secured Debentures sold in the private placement are subject to the terms of the deed of trust, entered into in March 2019, by and between Formula, as the issuer of the debentures, and Reznick Paz Nevo Trusts Ltd., as trustee on behalf of the debenture holders.

The terms of the Series C Debentures sold in the April 2021 private placement were identical in all respects to those of the Series C Debentures sold in Formula’s March 2019 public offering.

August 2022 Private Placement

On August 22, 2022, Formula entered into agreements with qualified investors in Israel for the private placement to those investors of an additional aggregate of NIS 200 million principal amount of Formula’s Series C Secured Debentures, at a price of NIS 975 for each NIS 1,000 principal amount. The total aggregate gross proceeds received by Formula from the investors was NIS 195 million (of which NIS 1.1 million was attributed to interest payable, or approximately \$0.3 million). The additional debentures were sold by means of an increase in the outstanding principal amount of Series C Secured Debentures.

The total principal amount of all debentures—including Series A Secured Debentures and Series C Secured Debentures—issued by Formula that remain outstanding as of March 31, 2024 constituted NIS 446.5 million (approximately \$123.1 million).

General Terms of Outstanding Debentures

The Series A Secured Debentures and Series C Secured Debentures contain, in addition to standard terms and obligations, the following obligations on our part:

- a negative pledge, subject to certain exceptions;
- a covenant not to distribute dividends unless: (i) shareholders' equity (not including minority interests) is at least \$290 million (for the Series C Secured Debentures) or \$250 million (for the Series A Secured Debentures); (ii) Formula's consolidated net financial indebtedness (financial indebtedness net of cash, marketable securities, deposits and other liquid financial instruments) does not exceed 50% (for the Series C Secured Debentures) or 65% (for the Series A Secured Debentures) of net CAP (which is defined as financial indebtedness, net, plus shareholders equity); (iii) the amount of the distributions (including, in the case of the Series C Secured Debentures, any previous distribution starting from January 1, 2016) does not exceed that aggregated amount of the profit accrued for 2015 and 75% of profits accrued from January 1, 2016 until the distribution; (iv) no event of default shall have occurred; and (v) no material breach of obligations under the debentures shall have occurred; and
- Financial covenants, including: (i) the equity attributable to the shareholders of Formula, as reported in Formula's annual or quarterly financial statements, will not be less than \$160 million (for the Series A Secured Debentures) or \$215 million (for the Series C Secured Debentures); (ii) Formula's consolidated net financial indebtedness (financial indebtedness net of cash, marketable securities, deposits and other liquid financial instruments) shall not exceed 65% of net CAP (which is defined as financial indebtedness, net, plus shareholders equity); (iii) for the Series C Secured Debentures, Formula's consolidated net financial indebtedness shall not exceed five times EBITDA (which is defined as the consolidated net profit plus taxes, net financing expenses, depreciation and amortization and without expenses for employee stock option, expenses for transactions and on-time income/expenses); and (iv) at all times, Formula's cash balance will not be less than the annual interest payment (compounded) for the unpaid principal amount of the Series C Secured Debentures or the Series A Convertible Debentures (as applicable).

We have agreed to standard events of default under the Series A Secured Debentures and Series C Secured Debentures, together with the following additional events of default due to any of the following:

- cross default, excluding following an immediate repayment initiated in relation to the other series of debentures or other indebtedness (other than non-recourse debt) over NIS 75 million (\$20.7 million as of December 31, 2023);
- suspension of trading of the debentures on the TASE over a period of 60 days;
- failure to have the debentures rated over a period of 60 days;
- if the rating of the debentures is less than BBB- by Standard and Poors Maalot or equivalent rating of other rating agencies;
- if there is a change in control without consent of the rating agency;
- if Formula fails to provide additional security when the loan-to-value of the securities securing the Series A Secured Debentures or Series C Secured Debentures (as applicable) falls below the required ratio;
- the existence of a real concern that Formula will not meet its material undertakings towards the debenture holders;
- the inclusion in Formula's financial statements of a note regarding the existence of significant doubt as to Formula's ability to continue as a going concern;
- breach of Formula's undertakings regarding the issuance of additional debentures;
- Formula's failure to continue to control any of its subsidiaries; and
- failure to comply with the negative pledge covenant.

Subsidiary and Affiliate Financing Activities

From time to time, our subsidiaries and affiliated companies also maintain credit facilities with banks and other financial institutions and issue debt instruments such as debentures in accordance with their cash requirements. These credit facilities and debentures include, inter alia, certain standard events of defaults related to our subsidiaries' operations, which restrict their ability to: (i) undergo a change of control, (ii) distribute dividends, (iii) incur debt or apply a floating charge on their assets, or (iv) undergo an asset sale or other change that would result in a fundamental change in their operations. The subsidiaries' and affiliated companies' indebtedness also requires that they comply with certain financial covenants, including maintenance of certain financial ratios related to their shareholders' equity, total rate of debt and liabilities, minimum outstanding balance of total cash and short-term investments and operating results that are customary for companies of their comparable size and the risk. Some of our subsidiaries' assets are pledged to the lender banks and debenture holders. If we or any of our subsidiaries do not meet the covenants specified in our credit agreements or indentures (or equivalent agreement with the debenture holders), and a waiver with respect to the fulfillment of such covenants has not been received from the lender bank or representative of the debenture holders, the lender bank or debenture holders (via the action of their representative) may foreclose on the pledged assets to satisfy a debt.

Currently, Matrix, Sapiens, Magic Software, Zap Group, and Formula have such material credit facilities and/or debentures outstanding. The long-term debt obligations of Matrix over NIS nominated loans bear fixed interest at an average annual rate of 1.4%-3.8% (including Matrix Series B Debentures issued September 2022 and extended in December 2022). The long-term debt obligations of Magic Software over NIS nominated loans bear fixed interest at an annual rate of 6.32% and floating interest over NIS and dollar nominated loans at a rate of SOFR + 2.1% - SOFR + 3.38% over U.S dollar nominated loans and Prime +0.92% – Prime +0.95% over NIS nominated loans. The long-term debt obligations of Sapiens bear fixed interest at an annual rate of 3.37%. These credit facilities and/or debentures expire over a period of time that ranges from one to seven years. The long-term debt obligations of Zap Group over NIS nominated loans bear floating interest over NIS at a rate of Prime +0.95% – Prime +1.1%.

As of December 31, 2023, Matrix had aggregate short-term obligations to banks and others of NIS 403.7 million (approximately \$111.3 million) and aggregate long-term obligations to banks and others of NIS 108.0 million (approximately \$29.8 million) under its credit facilities. As of December 31, 2023, Magic Software had aggregate short-term obligations to banks and others of \$28.9 million and aggregate long-term obligations to banks and others of \$52.3 million under its credit facilities. As of December 31, 2023, Zap Group had aggregate short-term obligations to banks and others of NIS 12.7 million (approximately \$3.5 million) and aggregate long-term obligations to banks and others of NIS 13.7 million (approximately \$3.8 million) under its credit facilities. During the second half of 2022, in an effort to hedge its exposure to the effects of the increase in interest rates, Matrix engaged in two Series B bonds issuances, yielding a net amount (minus issuance expenses) of approximately NIS 471.4 million (approximately \$140.4). The principal due under the Matrix IT Series B Debentures is payable in thirteen (13) semi-annual installments each equal to approximately 7.14% of the aggregate principal amount (or approximately NIS 33,959) on February 1st and on August 1st of each of the years 2023 through 2029 with the last payment equal to 7.18% of the aggregate principal amount (or approximately NIS 34,148) paid on February 1, 2030. The outstanding principal amount under the Matrix IT Series B Debentures bears interest at a fixed rate of 4.1% per annum (subject to adjustments based on the credit rating of the debentures), payable on February 1st and August 1st of each of the years as of February 1, 2023, through 2030.

In September 2017, Sapiens issued NIS 280 million (approximately \$78.3 million, net of \$0.96 million of debt discount and issuance costs) principal amount of Series B unsecured, non-convertible debentures, in a public offering and private placement in Israel. Proceeds of such offering were utilized to repay the entire outstanding loan amount (including accrued interest) under a \$40 million credit agreement to which Sapiens had been party with HSBC Bank USA, National Association as financing for Sapiens' acquisition of StoneRiver. The outstanding principal amount of the Sapiens Series B debentures is linked to the US dollar and bears interest at an annual rate of 3.37%, to be paid on a semi-annual basis (on January 1 and July 1 of 2018 through 2025, with one final interest payment on January 1, 2026). The principal of the Sapiens Series B debentures is payable in eight equal annual payments beginning on January 1, 2019, with the final payment due on January 1, 2026. The first six principal installments for the September 2017 Series B Debentures, in amounts of \$9.9 million each, were paid on January 1, 2019, 2020, 2021, 2022, 2023 and 2024.

In June 2020, Sapiens issued additional Series B Debentures in an aggregate principle amount of NIS 210 million (approximately \$60.4 million) through a public offering in Israel. The gross proceeds received for the issuance of Sapiens' Series B Debentures in June 2020 were NIS 210.8 million (approximately \$60.6 million), out of which approximately NIS 3.0 million was attributed to interest payable (approximately \$0.9 million). Debt discount of NIS 2.2 million (approximately \$0.6 million) and issuance costs of NIS 2.3 million (approximately \$0.7 million) were allocated to Sapiens' Series B Debentures and are amortized as financial expenses over the remaining term of the Sapiens Series B Debentures due in 2026. The first four principal payments of \$9.9 million each for the June 2020 Series B Debentures were made on January 1, 2021, 2022, 2023 and 2024.

On October 20, 2020, Sapiens closed an underwritten follow-on public offering of 3,389,830 of its common shares at a public offering price of \$29.50 per share, before underwriting discounts and commissions. Sapiens also granted the underwriters a 30-day option to purchase up to an additional 508,474 common shares at the public offering price, less underwriting discounts and commissions, which option was exercised in full. In total, Sapiens raised net proceeds of approximately \$108.7 million from the offering, after deducting underwriting discounts and commissions and estimated offering expenses.

In the deed of trust entered into by Sapiens with the trustee for the holders of its Series B Debentures, Sapiens undertook to maintain a number of conditions and limitations on the manner in which it can operate its business, including limitations on its ability to undergo a change of control, distribute dividends, incur a floating charge on its assets, or undergo an asset sale or other change that results in a fundamental change in its operations. The deed of trust also requires Sapiens to comply with certain financial covenants, including maintenance of a minimum shareholders' equity level and a maximum ratio of financial indebtedness to shareholders' equity, at levels that are customary for companies of comparable size. The deed of trust furthermore provides for an upwards adjustment in the interest rate payable under the debentures in the event that the debentures' rating is downgraded below a certain level. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the rating of the debentures (below BBB-) could result in the acceleration of Sapiens' obligation to repay the debentures.

As of the date of the financial statements included in this annual report, each of Formula, Sapiens, Magic Software, Zap Group and Matrix was in compliance with each of its respective financial covenants.

We believe that our current cash reserves, together with cash that may be distributed to us from the ongoing operations of our subsidiaries and any credit that we may choose to draw upon that is available under our (and our subsidiaries' and affiliated company's) existing credit facilities should be sufficient for our present working capital requirements for at least the next 12 months at our current level of operations. We may consider in the future additional equity issuances, debt issuances or borrowings from banks if necessary to meet cash needs for our growth, including if needed to consummate one or more acquisitions for consideration consisting of all or a substantial portion of our available cash. Should we require additional financing in the future, we cannot assure you that such financing will be available on favorable terms or at all.

Credit Ratings

In April 2021, following Formula's consummation of a private placement to qualified investors in Israel of additional Series C Secured Debentures, Formula reported publicly to the TASE and Israeli Securities Authority that Midroog (established in affiliation with the worldwide rating company, Moody's Corporation which maintains a 51% share capital interest) maintained the then-current credit rating of Aa3.il with stable outlook for Formula's current series of secured debentures (Series A Secured Debentures and Series C Secured Debentures), which it affirmed in December 2023.

In connection with its August 2022 private placement of additional Series C Secured Debentures, on August 22, 2022, Formula publicized an updated rating report published by Standard & Poor's Maalot, or S&P (a subsidiary of S&P Global) which it affirmed in July 2023, with respect to Formula and its two outstanding series of debentures. In that report, S&P assigned a rating of ilAA- for both the Series A Secured Debentures and Series C Secured Debentures, and a rating of ilAA-/stable for Formula itself.

In connection with Sapiens' offering of its Series B Debentures, Sapiens received from S&P a corporate credit rating and a rating for the Series B Debentures, which S&P affirmed, as of July 2018 and 2019, May 2020 and July 2021, as iLA+, with stable outlook. On June 28, 2022, S&P upgraded the rating for Sapiens' Series B Debentures from "iLA+" to "iLAA-" (on local scaling), with a stable outlook, which it affirmed in July 2023.

In connection with Matrix's August offering of its Series B Debentures (then extended in December 2022 in a private placement) Matrix received from Midroog a corporate credit rating and a rating for the Series B Debentures, which Midroog affirmed, as of March 2023 and 2024, as iLAa3.il, with stable outlook.

Cash Provided by Operating Activities

Cash flow provided by our operating activities increased from \$239.1 million in 2022 to \$295.0 million in 2023, mainly resulting from (i) increase in Matrix's cash flow provided by operating activities from NIS 387.4 million (approximately \$115.3 million) in 2022 to NIS 496.2 million (approximately \$134.5 million), (ii) increase in Sapiens cash flow provided by operating activities from \$43.8 million to \$79.4 million and (iii) increase in Magic cash flow provided by operating activities from \$56.6 million to \$69.0 million.

Net cash provided by operating activities in 2023 consisted primarily of the cash generated by our subsidiaries' ongoing operating activities and of net income stemming therefrom, as adjusted for non-cash activity, including changes in operating assets and liabilities. The material upwards adjustments in cash flow reflecting non-cash activity included adjustments due to: (i) depreciation and amortization of capitalized research and development assets, other intangible assets (mainly customer relations), property, plants and equipment and operating right-of-use assets in an aggregate amount of \$121.8 million; (ii) an increase in trade payables in an amount of \$18.7 million; (iii) stock-based compensation expenses in an amount of \$18.6 million; (iv) an increase in deferred revenues in an amount of \$9.7 million and (v) a decrease in other current and long-term accounts receivable in an amount of \$6.6 million, offset in part by: (a) a changes in deferred taxes, net in an amount of \$8.3 million; (b) cash paid in respect of acquisitions of activities in an amount of \$6.6 million; (c) change in liability in respect of business combinations in an amount of \$2.1 million and (d) an increase in trade receivables in an amount of \$3.4 million.

Net cash provided by operating activities in 2022 consisted primarily of the cash generated by our subsidiaries' ongoing operating activities and of net income stemming therefrom, as adjusted for non-cash activity, including changes in operating assets and liabilities. The material upwards adjustments in cash flow reflecting non-cash activity included adjustments due to: (i) depreciation and amortization of capitalized research and development assets, other intangible assets (mainly customer relations), property, plants and equipment and operating right-of-use assets in an aggregate amount of \$115.3 million; (ii) an increase in trade payables in an amount of \$25.3 million; (iii) an increase in other accounts payable and employees and payroll accrual in an amount of \$22.3 million; (iv) stock-based compensation expenses in an amount of \$15.0 million; (v) a decrease in other current and long-term accounts receivable in an amount of \$2.6 million, offset in part by: (a) an increase in trade receivables in an amount of \$51.4 million; (b) a gain from disposition of a subsidiary of Matrix in an amount of \$44.3 million; (c) changes in deferred taxes, net in an amount of \$18.1 million; (d) an increase in inventories in an amount of \$13.8 million; (e) a decrease in deferred revenues in an amount of \$6.4 million; and (f) a decrease in value of short-term and long-term loans from bank and others and deposits, net in an aggregate amount of \$4.7 million.

Cash flow provided by operating activities in 2022 was primarily comprised of NIS 387.4 million (approximately \$115.3 million) provided by Matrix, \$55.6 million provided by Sapiens, \$56.7 million provided by Magic Software, \$6.9 million provided by Michpal, \$8.5 million provided by Zap Group, \$2.9 million provided by Shamrad, \$0.8 million provided by Insync and approximately \$0.6 million provided by Ofek, offset by \$7.9 million used by Formula.

Cash Used by Financing Activities

Cash flow used by financing activities was \$243.2 million in 2023 compared to cash flow used by financing activities in an amount of \$71.0 million in 2022, mainly reflecting the cumulative effect of the following financing-related transactions that occurred over the course of those years:

Year Ended December 31, 2023

In 2023, Magic Software declared cash dividends to its shareholders in an aggregate amount of approximately \$30.8 million, of which \$16.6 million were paid to non-controlling interests.

In 2023, Matrix declared cash dividends to its shareholders in an aggregate amount of approximately NIS 126.4 million (approximately \$34.3 million, based on the average exchange rate for the year 2023), of which NIS 65.5 million (approximately \$17.8 million) were paid to non-controlling interests. In addition, in March 2024, upon the publication of its financial statements for the year ended December 31, 2023, Matrix announced an additional dividend distribution in an aggregate amount of approximately NIS 80.7 million (approximately \$21.7 million) of which NIS 41.8 million (approximately \$11.2 million) was paid to non-controlling interests.

In 2023, Sapiens declared cash dividends to its shareholders in an aggregate amount of approximately or \$28.1 million, of which \$15.7 million were paid to non-controlling interests. In addition, in March 2024, upon the publication of its financial statements for the year ended December 31, 2023, Sapiens announced an additional dividend distribution in an aggregate amount of approximately \$15.6 million of which \$8.8 million was paid to non-controlling interests.

Over all, net cash used by financing activities in 2023 was attributable to: (i) dividends paid to non-controlling interests in subsidiaries in an amount of \$62.5 million; (ii) dividends paid to Formula's shareholders in an amount of \$9.9 million; (iii) repayment of long-term loans from banks and others in an amount of \$82.9 million; (iv) repayment of debentures in an amount of \$60.4 million; (v) repayment of lease liabilities in an amount of \$55.1 million; (vi) purchase of non-controlling interests in an amount of \$2.7 million; (vii) a decrease in short-term bank credit, net in an amount of \$9.5 million and cash paid due to exercise of put option by non-controlling interests in an amount of \$13.2 million; offset in part by (a) receipt of long-term loans from banks and others in an amount of \$55.6 million and (b) exercise of employees' stock options in subsidiaries in an amount of \$4.8 million.

Year Ended December 31, 2022

Cash flow used by financing activities was \$80.0 million in 2022 compared to cash flow used by financing activities in an amount of \$114.1 million in 2021, mainly reflecting the cumulative effect of the following financing-related transactions that occurred over the course of those years:

In 2022, Magic Software declared cash dividends to its shareholders in an aggregate amount of approximately \$24.8 million, of which \$13.4 million were paid to non-controlling interests. In addition, in March 2023, upon the publication of its financial results for the year ended December 31, 2022, Magic Software announced an additional dividend distribution in an aggregate amount of approximately \$14.7 million of which \$7.9 million was paid to non-controlling interests.

In 2022, Matrix declared cash dividends to its shareholders in an aggregate amount of approximately NIS 284.3 million (approximately \$84.6 million, based on the average exchange rate for the year 2022), of which NIS 145.9 million (approximately \$43.4 million) were paid to non-controlling interests. In addition, in March 2023, upon the publication of its financial statements for the year ended December 31, 2022, Matrix announced an additional dividend distribution in an aggregate amount of approximately NIS 37.4 million (approximately \$10.2 million) of which NIS 19.4 million (approximately \$5.3 million) was paid to non-controlling interests.

In 2022, Sapiens declared cash dividends to its shareholders in an aggregate amount of approximately or \$38.9 million, of which \$21.6 million were paid to non-controlling interests. In addition, in March 2023, upon the publication of its financial statements for the year ended December 31, 2022, Sapiens announced an additional dividend distribution in an aggregate amount of approximately \$13.8 million of which \$7.7 million was paid to non-controlling interests.

Overall, net cash used by financing activities in 2022 was attributable to: (i) dividends paid to non-controlling interests in subsidiaries in an amount of \$96.6 million; (ii) dividends paid to Formula's shareholders in an amount of \$21.8 million; (iii) repayment of long-term loans from banks and others in an amount of \$87.9 million; (iv) repayment of debentures in an amount of \$53.1 million; (v) repayment of lease liabilities in an amount of \$49.7 million; (vi) purchase of non-controlling interests in an amount of \$16.8 million; and (vii) a decrease in short-term bank credit, net in an amount of \$7.3 million; offset in part by (a) proceeds from issuance of debentures, net in an amount of \$199.1 million (mainly gross proceeds received by Matrix for the issuance of the Series B Debentures and proceeds received by Formula for the issuance of the additional Series C Secured Debentures); and (b) receipt of long-term loans from banks and others in an amount of \$65.7 million.

Cash Used in Investing Activities

Net cash used in our investing activities was \$139.2 million in 2023 compared to \$74.3 million in 2022.

Net cash used in investing activities in 2023 was attributable to: (i) expenditures (net of cash acquired) with respect to business acquisitions in an aggregate amount of \$37.0 million; (ii) purchase of property and equipment and intangible assets in an amount of \$17.4 million; (iii) purchase of other investments in an amount of \$0.5 million; (iv) capitalization of software development and other costs in an amount of \$14.6 million; (v) payments to former shareholders of consolidated company in an amount of \$7.9 million; (vi) net increase in short-term and long-term deposits in an amount of \$51.5 million and (vii) payments in conjunction with deferred payments and contingent liabilities related to business combinations in an amount of \$11.9 million. This cash use was offset in part by the following cash amounts provided by investing activities in 2023: (a) proceeds from maturity and sale net of investment in debt instruments at fair value through other comprehensive income or loss, net in an amount of \$0.7 million; and (b) proceeds from sale of property and equipment in an amount of \$1.0 million.

Net cash used in our investing activities was \$74.3 million in 2022 compared to \$110.2 million in 2021.

Net cash used in investing activities in 2022 was attributable to: (i) expenditures (net of cash acquired) with respect to business acquisitions in an aggregate amount of \$52.3 million; (ii) purchase of property and equipment and intangible assets in an amount of \$25.2 million; (iii) purchase of other investments in an amount of \$15.1 million; (iv) capitalization of software development and other costs in an amount of \$14.1 million; and (v) payments in conjunction with deferred payments and contingent liabilities related to business combinations in an amount of \$5.2 million. This cash use was offset in part by the following cash amounts provided by investing activities in 2022: (a) proceeds from sale of a subsidiary of Matrix net of taxes paid in conjunction of this sale in an amount of \$34.5 million; (b) increase in short-term and long-term deposits, net in an amount of \$2.0 million; and (c) proceeds from sale of property and equipment in an amount of \$0.7 million.

Company Commitments

The total principal amount of all debentures—including Series A Secured Debentures and Series C Secured Debentures—issued by Formula that remain outstanding as of March 31, 2024 constituted NIS 446.5 million (approximately \$123.1 million).

For a description of the amounts outstanding under these debenture series and the related covenants and restrictions to which we are subject, please see “Sources of Financing” above in this Item 5.B (“Liquidity and Capital Resources”).

We do not have material commitments for capital expenditures by Formula as of December 31, 2023 or as of the date of this annual report.

We have entered into an undertaking to indemnify our office holders in specified limited categories of events and in specified amounts, subject to certain limitations. For more information, see “Item 7. Major Shareholders and Related Party Transactions— Related Party Transactions— Indemnification of Office Holders.”

Subsidiary Commitments

Our subsidiaries do not have any material commitments for capital expenditures as of December 31, 2023 or as of the date of this annual report.

As alluded to above (see “Sources of Financing—Subsidiary and Affiliate Financing Activities” in this Item 5.B (“Liquidity and Capital Resources”)), the loan agreements, debentures and indentures to which we are party contain a number of conditions and limitations on the way in which we (Matrix, Sapiens, Magic Software, Zap Group and Formula) can operate our businesses, including limitations on our ability to raise debt and sell or acquire assets not in normal business activity. For example, Matrix’s loan agreement includes a negative pledge with respect to Matrix’s assets, as well as limitations on Matrix’s ability to provide guarantees to third parties and sell or transfer its assets. Matrix’s loan agreements also contain various covenants which require it to maintain certain financial ratios related to shareholders’ equity and operating results that are customary for companies of comparable size.

Our subsidiaries and affiliate have provided bank guarantees aggregating to approximately \$41.9 million as of December 31, 2023 as security for the performance of various contracts with customers. If our subsidiaries and affiliates were to breach certain terms of such contracts, the customers could demand that the banks providing the guarantees pay amounts claimed to be due.

Our subsidiaries and affiliate have also provided additional bank guarantees aggregating to \$9.4 million as of December 31, 2023 as security for rent to be paid for their offices. If our subsidiary and affiliate were to breach certain terms of their leases, the lessors could demand that the banks providing the guarantees pay amounts claimed to be due.

Pursuant to the Series A Secured Debentures and Series C Secured Debentures described above, liens have been incurred over a certain portion of our investment in outstanding shares of Matrix, Sapiens and Magic Software, in respect of the amounts shown in the table below:

	December 31, 2022	
	Formula’s Series A Secured Debentures	Formula’s Series C Secured Debentures
Matrix ordinary shares, par value NIS 1 per share	4,128,865	6,169,761
Magic Software ordinary shares, par value NIS 0.1 per share	5,825,681	3,141,474
Sapiens common shares, par value €0.01 per share	1,260,266	2,957,590

We and IAI have granted TSG, our jointly controlled affiliate, in equal share, a guarantee of NIS 40 million (approximately \$11.0 million) as security against TSG’s bank credit line and bank guarantees issued by TSG for the performance of various contracts with its customers.

C. Research and Development, Patents and Licenses, etc.

The net amounts that we spent on research and development activities in 2022 and 2023 were \$72.1 million and \$78.0 million, respectively. For more information about our research and development activities, see “Item 4. Information on the Company—Business Overview— Software Development.”

For information concerning our intellectual property rights, see “Item 4. Information on the Company— Business Overview— Intellectual Property Rights.”

D. Trend Information

Trends Impacting Our Industry and Our Business

Trends in the information technology market (IT)

The 2023 year was a weaker year for the IT market than the years during which COVID-19 had its biggest impact, but an improvement over 2022. According to Forrester, 2023 was expected to end with a 4% increase in global IT spending. According to Gartner, the growth was expected to be only 3.3%. The increase in software and IT services according to the forecast of these two market analysts exceeded 18%, while the investments in end devices, hardware in general, and communication services were to be very low, and some of them were even expected to decrease. Those factors resulted in expected increases of only 4% and 3.3% respectively, in the view of those analysts.

In Israel, the forecasts for IT spending in 2023 and 2024 were greatly influenced by the “Iron Swords War”, the geopolitical situation of Israel, and the uncertainties derived from it. IDC predicted that the increase in IT spending in Israel in 2023, in light of the ongoing “Iron Swords War”, was to reach only 4%, which nevertheless proves, in IDC’s opinion, the stability and resilience 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 spending, with the software sector expected to grow by 10.5% and the IT services sector by 8.3%. According to Gartner, the growth in overall IT spending is expected to only grow by 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 growth 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 spending 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 decreased by more than 25% in 2022, yet it is still the fastest growing area in IT between five and six times the average growth of overall IT spending.

IDC predicted \$1 billion of spending in Israel (in 2024) just on IaaS, which currently accounts for about 65% of the high-tech market. IDC is expecting continued acceleration of 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 also because of the needs arising from the “Iron Swords War”.

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 negatively affected by about 2% and reach 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 other verticals (financial, high-tech, commerce, industry) are expected to grow on average between 3% and 6% during those years (2023-2027).

Hi-Tech Sector and Lack of Technological Human Capital and Related Professionals:

The 2023 year marked a 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 2023 year decreased to approximately 12,000 (a decrease of more than 40% compared to 2022). We believe that the trend of reducing manpower in high-tech companies may make it easier for us to recruit and retain employees and mitigate pressures for wage increases. On the other hand, the slowdown in the high-tech industry could lead to a decrease in demand and even hurt some of our customers in this field of activity and consequently cause damage to the results of the company’s activities. The shortage in competition for technological workforce and related professions in Israel may also have opposite effects on our business. On one hand, it is an inhibiting factor in the development of our business and our ability to satisfy the demand for our services in the technological fields (compensated to some extent by further increase in the demand for our non-IT services), it leads to salary increases for the company’s workforce (and consequently to the reduction of our profitability) and recruitment and retention costs. On the other hand, it increases the demand for our services - both for projects and for the services of our professional experts.

The U.S IT market is directly affected by economic developments in the U.S. During 2023, the U.S 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 U.S GDP in 2023 increased by 2.5% annually compared to 1.9% in 2022 and 5.8% in 2021.

Forrester expected a 4.5% increase in the U.S 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). Forrester predicted a 9.5% increase in software spending in the U.S market in 2023 and 10.6% in 2024. Forester also predicted a 4.8% increase in spending on IT services in 2023 and 7.3% in 2024. This was an expectation of a 9% increase in IT expenses for 2023 and 8.9% for 2024.

Similar to what we described regarding the software sector in Israel, a shortage in the technological workforce is also evident in the U.S market. The shortage and competition in the technological workforce and related professions in the U.S may have adverse effects on our business. On one hand, the lack of workforce makes it difficult for us to meet the demand for our services in technological fields and may force us to raise wages in our operations in the U.S, in order to preserve our existing workforce and to recruit new employees. Therefore, the continuation of the technological workforce shortage in the U.S may have a negative impact on the results of the company's activities in the U.S. On the other hand, the possibility to work fully from home, and from anywhere with each client, allowed us to reduce our office space, as well as to increase our ability to employ workers.

Technology/Digital Insurance

There are various sales and marketing trends that influence Sapiens' business.

Gartner, a leading global research and advisory company, has stated in its "Insurance CIO Priorities 2024: Insights for Technology and Service Providers' Product Plans", published on January 2, 2024 by James Ingham, that:

- Insurance respondents continued focus on application modernization, cybersecurity, data science and cloud, as seen in previous years. However, for 2024, respondents have reported increased funding for integration technologies, and APIs and API architecture have risen to the top of the priority list for the first time.
- Generative AI advancements have the potential to improve and accelerate the accuracy and efficiency of existing AI use cases — such as real-time summarization of customer call issues or extraction of data from complex policy documents — before unlocking value for net new use cases.
- Insurance CIOs are taking a measured approach to cryptocurrency transactions, metaverse, quantum computing, 5G and blockchain, and may adopt these technologies either slowly or indirectly.

Other analyst reports, which were published previously, highlighted potential growth opportunities and areas of focus for insurers.

Other Trends

As people accumulate more property and live longer, the insurance industry has become more competitive. The competition for the customers' business requires insurers to improve customer experience, be faster to market with new products and offer innovative channels, such as social media and mobile. Innovative technology infrastructure is necessary to support these business initiatives.

In addition, insurers are faced with the increasing significance of regulatory changes to protect the policyholder in many markets, particularly large insurers that are considered important to the stability of the world economic system. Many insurers are integrating enterprise risk management as standard operating procedure, while spreading ownership of risk throughout the strategic decision-making process.

As customers become more sophisticated, the support of innovative products and distribution channels is mandatory. Insurers are identifying growth opportunities by attracting new customers and retaining current customers by seeking to reinvent the customer experience and provide quote and policy information to their customers upon request. This means strong emphasis on digitalization of processes, rapid configuration and omni-channel distribution needs.

With today's strong trend of shifting attention to the end-customer experience and activities, there is an increasing focus on digital operations to support the increasing usage of the Internet for sales, recommendations and general communication. This affects the carriers' needs to innovate their product proposition through a flexible and modern solution. Another substantial trend is the increasing usage of data for decision-making, risk analysis, and customers' evaluation and rating, which requires streamlined data flow and easy access to information from multiple sources.

Increased global competition, the need to improve distribution channels and provide an enhanced customer experience, and efforts to expand into new countries and markets, have required heavy investments from insurers, resulting in a trend towards consolidation. This has mainly included consolidation of applications, databases, development tools, hardware and data centers.

A very notable trend is the rapidly increasing interest in AI, predictive models, and now also Generative-AI that is expected to bring a significant level of innovation, change, process automation and a growing trend of leveraging the huge amount of data captured by insurance carriers, to provide real-time insights and operational advice on managing the operation.

Also, the transfer to cloud-based systems in a SaaS engagement model with a subscription-type contracts is getting stronger, and we witness a growing and strong preference of customers and carriers to benefit from a cloud-native system.

Property & Casualty Market

Property & casualty insurance protects policyholders against a range of losses on items of value. P&C insurance includes the **personal segment**, which is insurance coverage for individuals, with products such as motor, home, personal property and travel; the **commercial segment**, covering aspects of commercial activity, such as commercial property, car fleets, cyber and professional liability; and **specialty lines**, covering unique domains, such as marine, art and credit insurance. This market also includes workers' compensation for market carriers, administrators and state funds, and Medical Professional Liability for health care professionals.

During the past few years, the P&C market has been characterized by a fast rate of digital adoption. New business and technology models are adopted rapidly, to launch innovative business offerings. This requires advanced software solutions, both on the core layer, which needs to be flexible and open, and with the variety of digital tools addressing customer experience needs.

Life, Pension & Annuity Markets

Life, pension & annuity providers offer their customers a wide range of products for long-term savings, protection, pension and insurance. They assist policyholders with financial planning through life insurance, medical and investment products. Their products can be classified into several areas, primarily investment and savings, risk and protection, pension and health-related products. These products can be targeted to individuals, as well as group- and employee-benefit types of products.

The products in this field are long-term in nature. When insurance providers consider purchasing new platforms from Sapiens, the decision is typically slower and involves multiple decision-makers throughout the organization.

Reinsurance Market

Reinsurance is insurance that is purchased by an insurance company (ceded reinsurance) from another insurance company (assumed reinsurance) as a means of risk management. The reinsurer and the insurer enter into a reinsurance agreement, which details the conditions upon which the reinsurer would pay the insurer's losses. The reinsurer is paid a reinsurance premium by the insurer and the insurer issues insurance policies to its own policyholders. The insurer must maintain an accurate system of records to track its reinsurance contracts and treaties, to avoid claims leakage.

Workers' Compensation

Workers' compensation is one of the largest lines of business in the P&C industry in North America. But future profitability is getting harder to maintain, with medical and indemnity costs per lost time claim increasing at rates greater than inflation. Insurance organizations require technology solutions that can adapt quickly to business and market conditions, offering high levels of accuracy and efficiency.

Financial & Compliance Market

Financial professionals face overwhelming challenges as they struggle to satisfy ever-changing regulatory requirements, while meeting the demands of managerial reporting. The move towards globalization has introduced new currencies, and CEOs need more performance data for strategic decision-making. Organizations require one partner to optimize efficiencies with solutions that can be implemented quickly.

Decision Management Market

Increasing competition, regulatory burden, customer experience expectations and the proliferation of digital and product innovation requirements have necessitated a shift in thinking and approach among organizations across verticals. By replacing conventional policy and process management with the discipline known as "decision management," financial institutions are bridging the gap between business and IT, by enabling business users to rapidly frame requirements in formal business models that can be easily understood by all stakeholders.

The decision management processes affect overall corporate performance, including its impact on customers and competitors. Decision management systems are a key performance component of every financial services organization, as they help the organization define, avoid and hedge financial risk.

Business Decision Management Market Needs

Many large organizations, particularly in the financial services market, must comply with complex regulations. They operate in highly competitive markets that require quick responses. Business logic drives most of the financial services transactions and is the backbone of an organization's policies and strategies, and its ability to successfully operate.

To achieve efficiency, business owners must assume ownership of the business logic and possess the ability to define, modify, standardize and reuse it across the organization. Business logic is defined today by business owners and compliance officers, but IT departments translate the requirements into code. This process raises several key challenges: 1) the result does not always accurately reflect the business requirements; 2) the new requirements might conflict with, or override, previous requirements; 3) the changes can take a long time and, 4) the entire process is not fully audited. These gaps often create an inefficient and risk-exposed organization.

For additional trend information, please see the discussion in Item 4. "Information on the Company— Business Overview" and Item 5. "Operating and Financial Review and Prospects— Results of Operations."

E. Critical Accounting Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with IFRS. The preparation of our financial statements required us, in certain circumstances, to make estimations, assumptions and judgments that affect the reporting amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities within the reporting period. We have based our estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis of making judgments about the values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. More detailed descriptions of these policies are provided in Note 2 to our consolidated financial statements contained elsewhere in this annual report.

The significant accounting policies which we believe are the most critical to aid in fully understanding and evaluating our reported financial results include the following:

Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that we controlled (subsidiaries). Control is achieved when we are exposed, or have rights, to variable returns from our involvement with the investee and have the ability to affect those returns through our power over the investee. Potential voting rights are 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.

Our financial statements and the financial statements of our investees, after being adjusted to comply with IFRS, are prepared for the same reporting period and using consistent accounting treatment of similar transactions and economic activities. Any discrepancies in the applied accounting policies are eliminated by making appropriate adjustments. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Other than our joint control of TSG, in which each of we and Israeli Aerospace Industries Ltd. hold 50% of its voting power, we currently have effective control under IFRS 10 of each of our other investees, Matrix, Sapiens, Magic Software, Zap Group, Michpal, Ofek Aerial Photography, Shamrad and InSync, despite our lacking absolute majority of voting power in Matrix, Magic Software and Sapiens. As a result of our effective control in these investees as of December 31, 2023 and in accordance with IFRS 10, we consolidated their financial results with ours throughout the period covered by the financial statements included in Item 18 of this annual report.

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 acquiree. In each business combination, we consider whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

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

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9, "Financial Instruments". Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

Non-controlling interests:

Non-controlling interests in subsidiaries, represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of Formula. Profit or loss and components of other comprehensive income are attributed Formula and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of Formula less / plus the consideration paid or received.

Functional currency, presentation currency and foreign currency:

The presentation currency of our consolidated financial statements is the U.S. dollar (the “dollar”), since we believe that financial statements in U.S. dollars provide more relevant information to our investors and users of the financial statements. The functional currency applied by Formula, on a stand-alone basis, until December 31, 2018, was the dollar. Following an examination and reevaluation of the primary economic environment in which Formula currently operates and expects to continue operating and taking into consideration the recent trends and its forward-looking business strategy, in accordance with the International Accounting Standard 21 (IAS 21), Formula concluded that our functional currency on a stand-alone basis commencing January 1, 2019 is the NIS. The functional currencies applied by our subsidiaries and associates are the currencies of the primary economic environment in which each one of them operates.

Assets, including fair value adjustments upon acquisition, and liabilities of an investee which is a foreign operation, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and, accordingly, the exchange rate differences from these loans (net of the tax effect) are recorded in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

Short-term deposits:

Short-term deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit. Restricted deposits include deposits used to secure certain subsidiaries’ ongoing projects, as well as security deposits with respect to leases, and are classified under other short-term and long-term receivables.

Inventories:

Inventories are measured at the lower of 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 estimated costs of completion and estimated costs necessary to make the sale. Inventories are mainly comprised of purchased merchandise and products which consist of educational software kits, computers, peripheral equipment and spare parts. Cost is determined on the “first in – first out” basis. The Group periodically evaluates the condition and aging of its inventories and makes provisions for slow-moving inventories accordingly. No such impairments have been recognized in any period presented.

Investment in joint arrangements:

Joint arrangements are arrangements in which we have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

i. Joint ventures:

In joint ventures the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture is accounted for by using the equity method.

Revenue Recognition

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

In determining the amount of revenue from contracts with customers, we evaluate whether we are the principal or the agent in the arrangement. We are considered as the principal when we control the promised goods or services before transferring them to the customer. In these circumstances, we recognize revenue for the gross amount of the consideration. When we are considered as the agent, we recognize revenue for the net amount of the consideration, after deducting the amount due to the principal.

i. Sale of software licensing, maintenance services and post implementation consulting services

A software licensing transaction that does not require significant implementation services is considered a distinct performance obligation, as the customer can benefit from the software on its own or together with other readily available resources.

We recognize revenue from software licensing transactions at a point in time when we provide the customer a right to use our intellectual property as it exists at the point in time at which the license is granted to the customer. We recognize revenue from software licensing transactions over time when we provide the customer a right to access our intellectual property throughout the license term.

We may generate revenue from sale of software licensing which includes significant implementation and customization services. In such contracts we are normally committed to provide the customer with a functional IT system and the customer can only benefit from such functional system, being the final product that would normally be comprised of proprietary licenses and significant related services. Revenues from these contracts are based on either fixed price or time and material.

Software licensing transactions which involve significant implementation, customization, or integration of the our software license to customer-specific requirements, are considered as one performance obligation satisfied over-time. The underlying deliverable is owned and controlled by the customer and does not create an asset with an alternative use to the Group. In addition, we have enforceable right to payment for performance completed throughout the duration of the contract.

Accordingly, we recognize revenue from such contracts over time, using the percentage of completion accounting method. We recognize revenue and gross profit as the work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss for the entire contract.

When post implementation and consulting services do not involve significant customization, we account for such services as performance obligations satisfied over time and revenues are recognized as the services are provided.

Revenue from maintenance is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the our performance. When payments from customers are made before or after the service is performed, we recognize the resulting contract asset or liability.

ii. Sale of hardware and infrastructure

Revenue from sale of hardware and infrastructure is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

iii. Sale of training and implementation services

Revenues from training and implementation services are recognized when the service is provided. Revenue from training services in respect of public courses whose operating range is up to 3 months will be recognized at the end of the course period. Revenues from training services in respect of long-term courses will be recognized over the term of the course. Revenues from implementation projects ordered by organizations will be recognized according to actual inputs (actually worked hours).

iv. Revenue of contracts according to actual inputs

Revenue from framework agreements for the performance of work according to actual inputs is recognized according to the hours invested.

v. Revenue of fixed price contracts

Revenue from fixed price contracts is recognized according to the completion rate method when all the following conditions are met: the revenue 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 our ability to complete the work, and the customer and the completion rate can be reliably estimated.

We apply a cost-based input method for measuring the progress of performance obligations that are satisfied over time. In applying this cost-based input method, we estimate the costs to complete contract performance in order to determine the amount of the revenue to be recognized. These estimated costs include the direct costs and the indirect costs that are directly attributable to a contract based on a reasonable allocation method.

In certain circumstances, we are unable to measure the outcome of a contract, but we expect to recover the costs incurred in fulfilling the contract as of the reporting date. In such circumstances, we recognize revenue to the extent of the costs incurred as of the reporting date until such time the outcome of the contract can be reasonably measured. If a loss is anticipated from a contract, the loss is recognized in full regardless of the percentage of completion.

When appropriate, we also apply a practical expedient permitted under IFRS 15 whereby if we have a right to consideration from a customer in an amount that corresponds directly with the value to the customer of our performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), we may recognize revenue in the amount it is entitled to invoice. Deferred revenues, which represent a contract liability, include unearned amounts received under maintenance and support (mainly) and amounts received from customers for which revenues have not yet been recognized.

vi. Allocating the transaction price

For contracts that consist of more than one performance obligation, at contract inception we allocate 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 we would sell the promised goods or services separately to a customer. We determine the stand-alone selling price for the purposes of allocating the transaction price to each performance obligation by considering several external and internal factors including, but not limited to, transactions where the specific performance obligation is sold separately, historical actual pricing practices and geographies in which we offer our products and services. If a specific performance obligation, such as the software license, is sold for a broad range of amounts (that is, the selling price is highly variable) or if we have not yet established a price for that good or service, and the good or service has not previously been sold on a stand-alone basis (that is, the selling price is uncertain), we apply the residual approach whereby all other performance obligations within a contract are first allocated a portion of the transaction price based upon their respective stand-alone selling prices, with any residual amount of transaction price allocated to the remaining specific performance obligation.

vii. Variable consideration

We determine the transaction price separately for each contract with a customer. When exercising this judgment, we evaluate the effect of each variable amount in the contract, taking into consideration discounts, penalties, variations, claims, and non-cash consideration. In determining the effect of the variable consideration, we normally use 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.

viii. Costs of obtaining a contract

In order to obtain certain contracts with customers, we incur incremental costs in obtaining the contract (such as sales commissions which are contingent on making binding sales). Costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which we expect to recover are recognized as an asset and amortized on a systematic basis that is consistent with the provision of the services under the specific contract.

An impairment loss in respect of capitalized costs of obtaining a contract is recognized in profit or loss when the carrying amount of the asset exceeds the remaining amount of consideration that we expect to receive for the goods or services to which the asset relates, less the costs that relate directly to providing those goods or services and that have not been recognized as expenses.

We have elected to apply the practical expedient allowed by IFRS 15 according to which incremental costs of obtaining contract are recognized as an expense when incurred if the amortization period of the asset is one year or less.

ix. Revenues that include warranty services

In certain cases, we also provide a warranty for goods and services sold (i.e., extended warranties when we contractually undertake to repair any errors in the delivered software within a strictly specified time limit and/or when the scope of which is broader than just an assurance to the customer that the product/service complies with agreed-upon specifications). We have ascertained that such warranties granted by us meet the definition of service. The conclusion regarding the extended nature of a warranty is made whenever we contractually undertake to repair any errors in the delivered software within a strictly specified time limit and/or when such warranty is more extensive than the minimum required by law. Under IFRS 15, the fact of granting an extended warranty indicates that we provide an additional service. As such, we recognize an extended warranty as a separate performance obligation and allocate a portion of the transaction price to such service. In all cases where an extended warranty is accompanied by a maintenance service, which is even a broader category than the extended warranty itself, revenues are recognized over time because the customer consumes the benefits of such service as it is performed by the provider. If this is the case, we continue to allocate a portion of the transaction price to such maintenance service. Likewise, in cases where a warranty service is provided after the project completion and is not accompanied by any maintenance service, then a portion of the transaction price and analogically recognition of a portion of contract revenues will have to be deferred until the warranty service is actually fulfilled.

x. Disaggregation of revenue

Service revenue includes contracts primarily for the provision of supplies and services other than design, development, customization, implementation, software maintenance and support and software updates associated with delivery of products or proprietary software. It may be a standalone service contract or a service performance obligation which is distinct from a contract or performance obligation for design, development, customization, support and upgrade or delivery of product. Our service contracts include contracts in which the customer simultaneously receives and consumes the benefits provided as the performance obligations are satisfied. Our service contracts primarily include operation-type contracts, outsourcing, consulting, remote development services, digital advertising management, training and similar activities.

Transaction prices allocated to performance obligation

Remaining performance obligations represent contract revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. The aggregate amount of consideration allocated to performance obligations either not satisfied or partially unsatisfied was approximately \$2,319,937 as of December 31, 2023 respectively. Remaining performance obligations include the remaining non-cancelable, committed and fixed portion of these contracts for their entire duration. The remaining performance obligations related to professional services contracts that are on a time and materials basis were excluded, as the Company elected to apply the practical expedient in accordance with IFRS 15. The Company expected to recognize approximately 66.2% in 2024 from remaining performance obligations as of December 31, 2023, and the remainder thereafter.

Income tax:

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

i. 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.

ii. Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. Deductible carry forward 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 or since it is our policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability.

Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12.

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.

Intangible assets

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

Intangible assets with a finite useful life are amortized over their useful life 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 are reviewed at least at each year end.

Intangible assets excluding capitalized development costs are comprised mainly of customer-related intangible assets, backlogs, distribution rights, brand names, non-compete agreements and acquired technology and Patent, and are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. The useful life of intangible assets is as follows:

	Years
Customer relationship, backlog and distribution rights	1–15
Acquired technology	2–8
Patents	10

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

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

Impairment of non-financial assets:

We evaluate the need to record an impairment of non-financial assets (property, plant and equipment, capitalized software costs and other intangible assets, goodwill, investments in joint venture) 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 less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

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

- i. Goodwill in respect of subsidiaries:

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of our cash-generating units that are expected to benefit from the synergies of the combination. We review goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an 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.

The discounted cash flow method is used to determine the recoverable amount of a cash-generating unit or the group of cash-generating units to which goodwill is allocated. The projected cash flows are derived from the budget for the next five years and do not include restructuring activities to which we are not yet committed or significant future investments that will enhance the performance of the assets of our cash-generating unit being tested. The recoverable amount is sensitive to key assumptions used to determine the recoverable amount, including discount rates and future growth rate. The discount rates are calculated based on a risk-free rate of interest and a market risk premium. The discount rates reflect the current market assessment of the risks specific to each group of our cash-generating units by taking into account specific group information on beta factors, leverage and cost of debt. We performed annual impairment tests as of December 31, 2023, 2022 and 2021 and did not identify any impairments.

ii. Investment in associate or joint venture using the equity method:

After application of the equity method, we determine whether it is necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. We determine at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

iii. Intangible assets with an indefinite useful life / capitalized development costs that have not yet been systematically amortized:

The impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

During the years ended December 31, 2021, 2022, and 2023, no impairment indicators were identified.

Financial instruments:

A. 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.

B. Financial liabilities:

i. 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. After initial recognition, we measure 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;
- Contingent consideration recognized by an acquirer in a business combination as to which IFRS 3 applies.

ii. Financial liabilities measured at fair value through profit or loss:

At initial recognition, we measure financial liabilities that are not measured at amortized cost at fair value. Transaction costs are recognized in profit or loss. After initial recognition, changes in fair value are recognized in profit or loss.

C. Derecognition of financial liabilities:

A financial liability is derecognized when it is extinguished, that is, when the obligation is discharged or cancelled or expires. A financial liability is extinguished when the debtor discharges the liability by paying in cash, other financial assets, goods or services or is legally released from the liability. When there is a modification to the terms of an existing financial liability, we evaluate whether the modification is substantial.

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

If the modification is not substantial, we recalculate the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

D. Compound financial instruments:

- i. Convertible debentures which contain both an equity component and a liability component are separated into two components. This separation is performed by first determining the liability component based on the fair value of an equivalent non-convertible liability. The value of the conversion component is determined to be the residual amount. Directly attributable transaction costs are apportioned between the equity component and the liability component based on the allocation of proceeds to the equity and liability components.
- ii. Convertible debentures that are denominated in foreign currency contain two components: the conversion component and the debt component. The liability conversion component is initially recognized as a financial derivative at fair value. The balance is attributed to the debt component. Directly attributable transaction costs are allocated between the liability conversion component and the liability debt component based on the allocation of the proceeds to each component.

E. Put option granted to non-controlling interests:

When we grant to non-controlling interests a put option to sell part or all of their interests in a subsidiary, during a certain period, even if such purchase obligation is conditional on the counterparty's exercise of its contractual right to cause such redemption, if the put option agreement does not transfer to us any benefits incidental to ownership of the equity instrument (i.e. the we do not have a present ownership in the shares concerned) then at the end of each reporting period the non-controlling interests (to which a portion of net profit attributable to non-controlling interests is allocated) are classified as a financial liability, as if such put-able equity instrument was redeemed on that date. The difference between the non-controlling interests carrying amount at the end of the reporting period and the present value of the liability is recognized directly in our equity, under "Additional paid-in capital".

We remeasure 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.

If the option is exercised in subsequent periods, the consideration paid upon exercise is treated as settlement of the liability. If the put option expires, the liability is settled and a portion of the investment in the subsidiary disposed of, without loss of control therein.

If we have present ownership of the non-controlling interests, these non-controlling interests are accounted for as if they are held by us, and changes in the amount of the liability are carried to profit or loss.

Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- 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 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).

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. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Following are the types of provisions included in the financial statements:

i. 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.

ii. Contingent liability recognized in a business combination:

A contingent liability in a business combination is measured at fair value upon initial recognition. In subsequent periods, it is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization, and the amount that would be recognized at the end of the reporting period in accordance with IAS 37.

Employee benefit liabilities:

The Group maintains several employee benefit plans:

i. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve (12) 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. A 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 short-term employee benefit liability in the statement of financial position is measured on an undiscounted basis.

ii. Post-employment benefits:

The plans are normally financed by contributions to insurance companies and classified as defined contribution plans or as defined benefit plans. Formula's and its Israeli subsidiaries and associates accounted for at equity (as defined with respect to their Israeli employee contribution plans pursuant to section 14 of Israel's Severance Pay Law, 1963 (the "Severance Pay Law")) pay fixed contributions to those plans and will have no legal or constructive obligation to pay further contributions if the fund into which those contributions are paid 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 performance of the employee's services.

Formula and its Israeli subsidiaries and companies accounted for at equity also operate a defined benefit plan in respect of severance or retirement pay to their Israeli employees pursuant to the Severance Pay Law. According to the Severance Pay 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 bonds that are linked to Israel's 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.

iii. Other long-term employee benefits:

Certain employees of the Group are entitled to benefits in respect of adaptation grants. These benefits are accounted for as other long-term benefits since the Group estimates that these benefits will be utilized and the Group's respective obligation will be settled during the employment period and more than twelve months after the end of the annual reporting period in which the employees rendered the related service.

The Group's net obligation for other long-term employee benefits, which is computed based on actuarial assumptions, is for the future benefit due to employees for services rendered in the current period and in prior periods and considering expected salary increases. The amount of these benefits is discounted to its present value. The discount rate is determined by reference at the reporting date to market yields on high quality corporate bonds that are linked to the Consumer Price Index and whose term is consistent with the term of the Group's obligation.

Remeasurement of the net obligation is recognized in the statement of comprehensive income in the incurred period.

Leases

We account 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.

i. We as lessee:

For leases in which we are the lessee, we recognize on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to twelve months and leases for which the underlying asset is of low value. For these excluded leases, we have elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, we have 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 which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

On the commencement date, the lease liability includes all unpaid lease payments discounted at the interest rate implicit in the lease, if that rate can be readily determined, or otherwise using our incremental borrowing rate. After the commencement date, we measure the lease liability using the effective interest rate method.

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

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

	<u>Years</u>	<u>Mainly</u>
Land and Buildings	2-23	3
Motor vehicles	2-3	3

We test for impairment of the right-of-use asset whenever there are indications of impairment pursuant to the provisions of IAS 36.

ii. Lease extension and termination options:

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

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, we remeasure the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

iii. Lease modifications:

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

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

Property, plant and equipment, net:

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. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment. The cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located.

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

	%
Computers, software, and peripheral equipment	20 – 33
Office furniture and equipment	6 – 33 (mainly 7)
Motor vehicles	13 – 15 (mainly 15)

Leasehold improvements are amortized using the straight-line method over the term of the lease (including option terms that are deemed to be reasonably assured) or the estimated useful life of the improvements, whichever is shorter.

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

Share-based payment transactions

Our employees and certain service providers are entitled to remuneration in the form of equity-settled share-based payment transactions. The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model. As for other service providers, the cost of the transactions is measured at the fair value of the goods or services received as consideration for equity instruments granted.

The cost of equity-settled transactions is recognized in profit or loss 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 our 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.

If we modify the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is canceled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the canceled grant and is identified as a replacement grant on the grant date, the canceled and new grants are accounted for as a modification of the original grant, as described above.

Concentration of credit risk:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits, restricted cash, trade receivables.

The majority of the Group’s cash and cash equivalents, deposits, and other financial instruments are invested with major banks in Israel, the United States and across Europe. Management believes that these financial instruments are held in financial institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments. Cash and cash equivalents and short-term deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally, these banks deposits may be redeemed upon demand and therefore bear minimal risk.

The Group’s trade receivables are generally derived from sales to large organizations located mainly in Israel, North America, Europe and Asia Pacific. The Group performs ongoing credit evaluations of its customers using a reliable outside source to determine payment terms and credit limits which are approved based on the size of the customer and to date has not experienced any material losses. In certain circumstances, Formula and its subsidiaries and companies accounted for at equity may require letters of credit, other collateral or additional guarantees. From time to time, the Group’s subsidiaries sell certain of their accounts receivable to financial institutions, within the normal course of business. The Group maintains an allowance for credit losses based upon management’s experience and estimate of collectability of each outstanding invoice. The allowance for credit losses is determined with respect to specific debts or which collection is doubtful. The risk of collection associated with accounts receivable is mitigated by the diversity and number of customers.

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.

Formula and its subsidiaries and companies accounted for at equity examine cash flow forecasts on a monthly basis as well as information regarding cash balances. As of the reporting date, these forecasts indicate that the Group can expect sufficient liquid sources for covering its entire liabilities under reasonable assumptions.

Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

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

a. Judgments:

(-) Effective control:

We evaluate whether we control a company in which we hold less than the majority of the voting rights by, among others, reference to the size of our share of voting rights relative to the size and dispersion of voting rights held by the other shareholders, and by voting patterns at previous shareholders' meetings.

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

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

(-) Discount rate for a lease liability:

When we are unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, we use an incremental borrowing rate. That rate represents the rate of interest that we would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, we determine the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. In certain situations, we are assisted by an external valuation expert in determining the incremental borrowing rate.

(-) Impairment of goodwill:

We review goodwill for impairment at least once a year. This requires our management teams to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. The possible effects on our financial statements are the recording of impairment losses in profit or loss.

Changes in accounting policies - initial adoption of new financial reporting and accounting standards

1. Amendment to IAS 1, “Presentation of Financial Statements”:

In January 2020, the IASB issued an amendment to IAS 1, “Presentation of Financial Statements” regarding the criteria for determining the classification of liabilities as current or non-current (“the Original Amendment”). In October 2022, the IASB issued a subsequent amendment (“the Subsequent Amendment”).

According to the Subsequent Amendment:

- Only financial covenants with which an entity must comply on or before the reporting date will affect a liability’s classification as current or non-current;
- In respect of a liability for which compliance with financial covenants is to be evaluated within twelve months from the reporting date, disclosure is required to enable users of the financial statements to assess the risks related to that liability. The Subsequent Amendment requires disclosure of the carrying amount of the liability, information about the financial covenants, and the facts and circumstances at the end of the reporting period that could result in the conclusion that the entity may have difficulty in complying with the financial covenants.

According to the Original Amendment, the conversion option of a liability affects the classification of the entire liability as current or non-current unless the conversion component is an equity instrument. The Original Amendment and Subsequent Amendment are both effective for annual periods beginning on or after January 1, 2024 and must be applied retrospectively. Early adoption is permitted.

The Company applied amendments related to the Subsequent Amendment in the consolidated financial statements included in this Annual Report.

2. Amendments to IAS 7, “Statement of Cash Flows”, and IFRS 7, “Financial Instruments: Disclosures”:

In May 2023, the IASB issued amendments to IAS 7, “Statement of Cash Flows”, and IFRS 7, “Financial Instruments: Disclosures” (“the Amendments”) to address the presentation of liabilities and the associated cash flows arising out of supplier finance arrangements, as well as disclosures required for such arrangements. The disclosure requirements in the Amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity’s liabilities, cash flows and exposure to liquidity risk. The Amendments are effective for annual reporting periods beginning on or after January 1, 2024. Early adoption is permitted but will need to be disclosed.

We believe that the Amendments are not expected to have a material impact on our consolidated financial statements.

3. Amendments to IAS 21, “The Effects of Changes in Foreign Exchange Rates”:

In August 2023, the IASB issued “Amendments to IAS 21: Lack of Exchangeability (Amendments to IAS 21, “The Effects of Changes in Foreign Exchange Rates”)” (“the Amendments”) to clarify how an entity should assess whether a currency is exchangeable and how it should measure and determine a spot exchange rate when exchangeability is lacking. The Amendments set out the requirements for determining the spot exchange rate when a currency lacks exchangeability. The Amendments require disclosure of information that will enable users of financial statements to understand how a currency not being exchangeable affects or is expected to affect the entity’s financial performance, financial position and cash flows. The Amendments apply for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted, in which case, an entity is required to disclose that fact. When applying the Amendments, an entity should not restate comparative information. Instead, if the foreign currency is not exchangeable at the beginning of the annual reporting period in which the Amendments are first applied (the initial application date), the entity should translate affected assets, liabilities and equity as required by the Amendments and recognize the differences as of the initial application date as an adjustment to the opening balance of retained earnings and/or to the foreign currency translation reserve, as required by the Amendments.

We believe that the Amendments are not expected to have a material impact on our consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

The following table sets forth information about our directors and senior management as of May 15, 2024.

Name	Age	Position	Expiration of Current Term of Directorship/Office
Guy Bernstein	56	Chief Executive Officer	No formal arrangement regarding expiration of term of office
Asaf Berenstein	46	Chief Financial Officer	No formal arrangement regarding expiration of term of office
Maya Solomon-Ella	46	Chief Operational Officer	No formal arrangement regarding expiration of term of office
Tammy Ohana Koll	48	Chief Technology Officer at Formula Systems and Chief Executive Officer of the Michpal Group	No formal arrangement regarding expiration of term of office
Marek Panek	54	Chairman of the Board of Directors	2024 annual shareholders meeting
Rafal Kozlowski	50	Director	2024 annual shareholders meeting
Tomer Jacob(1) (2) (3)	52	External director	May 2025
Relly Danon(1) (2) (3)	53	External director	May 2025
Karolina Rzonca-Bajorek	38	Director	2024 annual shareholders meeting
Gabriela Żukowicz	49	Director	2024 annual shareholders meeting

- (1) Serves on the audit committee of our board of directors.
- (2) Serves as an external director under the Companies Law. See “Item 6. Directors, Senior Management and Employees—Board Practices—External Directors under the Companies Law; Audit Committee; Internal Auditor; Approval of Certain Transactions under the Companies Law,” below.
- (3) Serves on the compensation committee of our board of directors.

Senior Management

Guy Bernstein has served as our Chief Executive Officer since January 2008. Mr. Bernstein served as a member of our board of directors from November 2006 to December 2008. Mr. Bernstein served as a director of Emblaze Ltd., or Emblaze, our former controlling shareholder and a publicly traded company listed on the London Stock Exchange, from April 2004 until February 2011. From December 2006 to November 2010, Mr. Bernstein also served as chief executive officer of Emblaze, and, prior thereto, from April 2004 to December 2006, as the chief financial officer of Emblaze. Mr. Bernstein serves as the chairman of the board of directors of each of Matrix and Sapiens and as chief executive officer and director of Magic Software, where he served as the chief financial and operations officer from 1999 until 2004, when he joined Emblaze. He joined Magic Software from Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, where he served as senior manager from 1994 to 1997. Mr. Bernstein also serves as a director of Michpal Micro Computers (1983) Ltd., a director at TSG IT Advanced Systems Ltd., and is a director at InSync staffing, all of them are subsidiaries of Formula Systems. Mr. Bernstein holds a B.A. degree in accounting and economics from the College of Management Academic Studies and is a certified public accountant in Israel.

Asaf Berenstein has served as our Chief Financial Officer since November 2011. Mr. Berenstein also serves as the Chief Financial Officer of our subsidiary, Magic Software, since April 2010. Prior to such time, beginning in August 2008, Mr. Berenstein served as Magic Software’s corporate controller. Mr. Berenstein also serves as a director of Michpal Micro Computers (1983) Ltd., a director at TSG IT Advanced Systems Ltd., and is a director at InSync staffing, all of them are subsidiaries of Formula Systems. Prior to joining our Company, Mr. Berenstein served as a controller at Gilat Satellite Networks Ltd. (Nasdaq: GILT), commencing in July 2007. From October 2003 to July 2007, Mr. Berenstein practiced as a certified public accountant at Kesselman & Kesselman, a member of PriceWaterhouseCoopers. Mr. Berenstein holds a B.A. degree in accounting and economics and an M.B.A. degree, both from Tel-Aviv University, and is a certified public accountant (CPA) in Israel.

Tammy Ohana Koll has served as our Chief Technology Officer at Formula Systems and Chief Executive Officer of the Michpal Group since March 2023. Ms. Ohana Koll holds over 20 years of experience in the technology industry. Prior to joining our Company, Ms. Ohana Koll was Deputy Chief Executive Officer and the Chief Information Officer at Migdal Insurance & Finance Group for a term of 6 years. Ms. Ohana Koll was also Vice President of R&D at Migdal Insurance Company Ltd. for term of 6 years prior to becoming Chief Information Officer. Earlier in her career, Ms. Ohana Koll held the position of Vice President of product at Malam Payroll for term of 10 years. She holds a B.A. degree in Computer Science from Sapir College.

Maya Solomon-Ella has served as our Chief Operational Officer since September 2016. In her last position Maya served as the Transaction Support leader in Ernst & Young Israel (Tel-Aviv branch). Maya served in Ernst & Young 13 years, three of which were with the Assurance Services team (Hi Tech) and 10 of which have been spent in the Transaction Advisory Services (TAS) group. Since joining the TAS group at Ernst & Young, Ms. Solomon-Ella has been involved in M&A transactions across the globe. Ms. Solomon-Ella holds a B.A. degree in Economics-Accounting from Bar Ilan University and is a Certified Public Accountant (CPA) in Israel.

Directors

Marek Panek has served as one of our directors since November 2010. Since January 2007 he has been the Executive Board Member of Asseco Poland S.A. and he is responsible for supervising the Capital Group Development Division and the EU Projects Office. Mr. Panek also holds and has held several other positions at Asseco and its affiliates, including Executive Board Member in Asseco International, a.s. (since October 2017), Supervisory Board Member of Asseco Central Europe, a.s. (since September 2011), Supervisory Board Member of Asseco Lietuva UAB (since June 2011), Chairman of GSTN Consulting Sp. Z o.o. (since November 2017), Supervisory Board Member of Asseco Innovation Fund Sp. Z o.o. (since December 2018), Chairman of the Supervisory Board of Nextbank Software (since March 2019) and Supervisory Board Member of adesso banking solutions GMBH (since September 2020). Mr. Panek first joined Asseco in 1995, having served in the following positions for the following periods of time: Marketing Specialist (from September 1995 to September 1996), Marketing Director (from October 1996 to March 2003), Sales and Marketing Director (from April 2003 to March 2004) and Member of the Board, Sales and Marketing Director (from March 2004 to January 2007). Prior to joining Asseco, Mr. Panek was employed at the ZE Gantel Sp. Z o.o. from 1993 to 1995. Mr. Panek graduated from the Faculty of Mechanical Engineering and Aeronautics of the Rzeszów University of Technology in 1994, having been awarded a master's degree in engineering.

Rafal Kozlowski has served as one of our directors since August 2012. From December 2020 Mr. Kozlowski has served as the President of the Management Board of Asseco Enterprise Solutions. From June 2012 to March 2021, Mr. Kozlowski has served as Vice President of the Management Board and Chief Financial Officer of Asseco Poland. From May 2008 to May 2012, Mr. Kozlowski served as Vice President of Asseco South Eastern Europe S.A. responsible for the company's financial management. Mr. Kozlowski was directly involved in the acquisitions of companies incorporated within the holding of Asseco South Eastern Europe, as well as in the holding's IPO process at the Warsaw Stock Exchange From 1996 to 1998, he served as Financial Director at Delta Software, and subsequently, from 1998 to 2003 as Senior Manager at Veraudyt. In the years 2004-2006, he was Head of Treasury Department at Softbank S.A. where he was delegated to act as Vice President of Finance at the company's subsidiary Sawan S.A. From 2007 through June 2009, he served as Director of Controlling and Investment Division at Asseco Poland S.A. Mr. Kozlowski graduated of the University of Warsaw, obtaining Master's degree at the Faculty of Organization and Management in 1998. He completed the Project Management Program organized by PMI in 2004, the International Accounting Standards Program organized by Ernst & Young Academy of Business in the years 2005-2006 and the Emerging CFO: Strategic Financial Leadership Program by Stanford GSB in 2019.

Relly Danon was elected to our board of directors as an external director in May 2022. Ms. Danon currently serves as legal counsel at Netline Communications Technologies (NCT) Ltd., a position held since 2000. In addition, Ms. Danon serves as an external director at Y.D. More Investments Ltd., a position held since 2017. From 2008 through 2017, Ms. Danon served as an external director at Mega Or Holdings Ltd. Ms. Danon also served as an external director at Jerusalem Technology Investments Ltd. from 2012 through 2014. From 2007 through 2009, Ms. Danon served as a director at Apex Portfolio Management Ltd. Ms. Danon holds a B.A. degree in law from Tel Aviv University.

Tomer Jacob was elected to our board of directors as an external director in May 2022. Mr. Jacob currently serves as a Managing Partner at Hanaco VC. From 2000 to 2021 Mr. Jacob served as a Managing Director at UBS. Mr. Jacob also currently serves as a director of Max, Israel's second largest credit card company. Mr. Jacob holds a B.A. degree in Economics & Management and a B.Sc degree in Computer Science from the academic college of Tel Aviv–Jaffa.

Karolina Rzonca-Bajorek was elected to our board of directors in August 2022. Ms. Rzonca-Bajorek has served in various financial managerial capacities within the Asseco Group since 2015, and during the period from 2012 to 2014. Since April 2021, Ms. Rzonca-Bajorek has served as Vice President of Finance, and a member of the Management Board, of Asseco. Prior to that period, from 2019 through March 2021, Ms. Rzonca-Bajorek served as the Director of the Finance Division of the Asseco Group. Before that, from 2015 until 2019, Ms. Rzonca-Bajorek served as the Director of the Reporting Department of the Asseco Group. From 2014 to 2015, Ms. Rzonca-Bajorek was the Stock Exchange Reporting Expert at PHZ Baltona S.A. From 2012 to 2014 Ms. Rzonca-Bajorek worked at Asseco Poland S.A. as the Finance Specialist in the Reporting Department of the Asseco Group. She started her professional career in 2009 at Ernst & Young Audit Sp. Z o.o. in the audit department, where she participated in audits of large corporate clients. Ms. Rzonca-Bajorek is a graduate of the Warsaw School of Economics, the faculty of finance and accounting (specialization: corporate finance and accounting). Ms. Rzonca-Bajorek holds the FCCA title and a Certificate of the Minister of Finance of Poland authorizing her to provide accounting services, and is in the process of becoming a certified auditor.

Gabriela Żukowicz has served since October 1, 2017 as Vice President of the Management Board of Asseco Poland S.A. responsible for the Legal Office and the Management Office, as well as the Human Resources Division, the Personnel Administration Division, the Compliance Division, the Maintenance and Development of Internal Systems Division, the Administration Division and the Purchasing Division of Asseco. Also, since March 2023 she acts as Chief ESG Officer. Ms. Żukowicz has been working at Asseco Poland since 1998, serving as the Director of the Management Board Office (October 2004 – December 2009) and as the Director of the Legal and Organizational Department (January 2010 – October 2017). In addition, from August 2012 to September 2017, Ms. Żukowicz held the position of Asseco's Proxy. She is the Chairman of the Supervisory Board of Park Wodny Sopot, the Vice Chairman of the Supervisory Board in Asseco Innovation Fund and the Member of the Supervisory Boards in the companies Asseco Western Europe and Asseco Lietuva. In 1998, Ms. Żukowicz graduated from the Faculty of Law of the Jagiellonian University in Kraków and completed her legal adviser's training in 2002.

Arrangements for the Election of Directors; Family Relationships

The previously disclosed October 2017 shareholders agreement between Asseco, our largest shareholder, and our chief executive officer, Mr. Guy Bernstein, under which Mr. Bernstein granted an irrevocable proxy to vote an additional 1,797,973 of our ordinary shares to Asseco, was terminated on December 5, 2022. Asseco has significant influence over the election of the members of our board of directors (other than our external directors). Other than as described immediately above, there are no arrangements or understandings with major shareholders, customers, suppliers or others pursuant to which any of our directors or members of senior management were selected as such.

Mr. Guy Bernstein and Mr. Asaf Berenstin are first cousins. Other than such relationship, there are no family relationships among our executive officers and directors.

Board Diversity Matrix

Board Diversity Matrix (as of March 15, 2024)				
Country of Principal Executive Offices:	Israel			
Foreign Private Issuer	Yes			
Disclosure Prohibited under Home Country Law	No			
Total Number of Directors	7			
	Female	Male	Non- Binary	Did Not Disclose Gender
Part I: Gender Identity				
Directors	3	3	0	0
Part II: Demographic Background				
Underrepresented Individual in Home Country Jurisdiction	0			
LGBTQ+	0			
Did Not Disclose Demographic Background	0			

B. Compensation

Aggregate Compensation Paid to Directors and Executive Officers

Formula paid to its directors and executive officers, consisting of the individuals listed above in the table under “—Directors and Senior Management”, as well as Ohad Melnick (our former director who served throughout 2023), direct remuneration and provided related benefits of approximately \$11.4 million, in the aggregate, with respect to 2023. This aggregate compensation amount includes amounts set aside or accrued to provide pension, retirement or similar post-employment benefits, which themselves totaled \$0.1 million in 2023. This aggregate compensation amount furthermore includes expenses recorded with respect to equity-based compensation in a total amount of \$7.2 million for 2023.

The above aggregate compensation amount does not, however, include the following:

- expenses, including business travel, professional and business association dues and expenses, for which Formula reimburses its officers; and
- other fringe benefits that companies in Israel commonly reimburse or pay to their officers,

as amounts incurred for such expenses and benefits in 2023 were paid in reimbursement of activities carried out by our directors and executive officers for strict business purposes in carrying out their duties on behalf of Formula and were therefore not compensatory in nature.

The above aggregate compensation amount includes payment of directors’ fees. Formula compensates its external directors and other directors in accordance with the regulations promulgated under the Companies Law.

Summary Compensation Table

For so long as we qualify as a foreign private issuer, we are not required to comply with the executive compensation disclosure requirements applicable to U.S. domestic companies, including the requirement to disclose information concerning the amount and type of compensation paid to our chief executive officer, chief financial officer and the three other most highly compensated executive officers on an individual basis. Nevertheless, regulations promulgated under the Companies Law require us to disclose the annual compensation of our five most highly compensated office holders (as defined in the Companies Law) on an individual basis. Under the Companies Law regulations, this disclosure is required to be included in the annual proxy statement for our annual meeting of shareholders, which we furnish to the SEC under cover of a Report of Foreign Private Issuer on Form 6-K. Because of that disclosure requirement under Israeli law, we are also including that information in this annual report, pursuant to the disclosure requirements of Form 20-F.

The table below reflects the compensation paid to our five most highly compensated office holders (each of whom is a member of our management) during or with respect to the year ended December 31, 2023. All amounts reported in the table reflect the cost to the Company, as recognized in our financial statements for the year ended December 31, 2023.

Compensation of Management⁽¹⁾

Name and Position ^{(1) (2)}	Salary (\$, in thousands)	Benefits And Perquisites (\$, in thousands)⁽⁴⁾	Variable Compensation (\$, in thousands)	Equity Based Compensation (\$, in thousands)⁽⁵⁾
Guy Bernstein – CEO ⁽⁶⁾	563	-	2,747	6,460
Asaf Berenstin – CFO ⁽³⁾	-	-	-	407
Tammy Ohana Koll – CTO	247	71	-	-
Maya Solomon-Ella – COO	175	39	68	330

- (1) All amounts reported in the table are in terms of cost to Formula, as recorded in Formula’s financial statements. We have four office holders who are members of management who are compensated by Formula (CEO, CFO, CTO and COO). For disclosure concerning compensation paid by us to our remaining four most highly compensated office holders (all of whom are directors), please see the table under “Compensation of Directors” below.
- (2) The executive officers listed in the table serve as employees or consultants of Formula. Cash compensation amounts denominated in currencies other than the U.S. dollar were converted into U.S. dollars at the average conversion rate for 2023.
- (3) Our Chief Financial Officer, Asaf Berenstin, also serves as the chief financial officer of our subsidiary Magic Software. Pursuant to an agreement between Magic Software and Formula, Mr. Berenstin allocates 40%-50% of his time to Formula. Because he is not regularly compensated by Formula, except for variable compensation and equity-based compensation, Mr. Berenstin salary is not listed in this table. As of January 1, 2021, for his role as our Chief Financial Officer and Magic Software chief financial officer Mr. Berenstin, is entitled to an annual bonus in an amount equal to 0.3% of our net profit (including capital gains).
- (4) Amounts reported in this column include benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable to the executive officer, payments, contributions and/or allocations for savings funds, pension, severance, vacation, car or car allowance, medical insurances and benefits, risk insurances (e.g., life, disability, accident), convalescence pay, payments for social security, tax gross-up payments and other benefits and perquisites consistent with our guidelines.
- (5) Amounts reported in this column represent the expense recorded in our financial statements for the year ended December 31, 2023 with respect to equity-based compensation. Assumptions and key variables used in the calculation of such amounts are described in Note 18(b) to our consolidated financial statements, contained elsewhere in this annual report.
- (6) Under his service agreement with us, our Chief Executive Officer, is entitled to an annual bonus in an amount equal to 3.3% of our net profit (including capital gains) after tax. Additionally, Mr. Bernstein’s variable compensation includes payments due with respect to 611,771 RSUs granted to him by Formula in consideration of dividends that Formula distributes to its shareholders in an amount equal to the pro-rata portion of the overall dividend amount that the RSUs constitute out of the issued and outstanding share capital of the Company as of the date of the distribution. For the purpose of payment of the dividend amounts, the portion of the dividend amount to be released to Mr. Bernstein, will in each case be based on the proportion of the number of fiscal quarters that have lapsed at the time of distribution of the dividend from January 1, 2020 until December 31, 2027. An advance of 70% of the estimated annual bonus with respect to each year is paid over the course of the year, divided into quarterly installments, which is estimated based on our quarterly financial statements and is subject to final adjustment at the end of the year.

Compensation of Directors

The following table sets forth information with respect to compensation of our directors (none of whom served as an employee of our company) during fiscal year 2023. The fees to the directors were paid by Formula.

Name and Principal Position	Total Fees Earned or Paid in Cash (\$)⁽¹⁾
Marek Panek – Chairman	36,150
Rafal Kozlowski – Director	36,150
Ohad Melnick – Director ⁽²⁾	43,100
Karolina Rzonca-Bajorek	36,150
Gabriela Żukowicz	36,150
Tomer Jacob - External Director	63,700
Relly Danon - External Director	43,160

- (1) All amounts reported in the table are in terms of cost to Formula, as recorded in Formula's financial statements.
- (2) Mr. Melnick served as a director throughout 2023 but was not re-elected at our annual general meeting of shareholders that took place on May 9, 2024.

Option Grants to, and Service Agreement with, Chief Executive Officer

Under his service agreement with us, Mr. Guy Bernstein, as our Chief Executive Officer, is entitled to a monthly salary, as well as an annual bonus in an amount equal to 3.3% of our net profit (including capital gains). An advance of 70% of the estimated bonus with respect to each year is paid over the course of the year, divided into quarterly installments, which is estimated based on our quarterly financial statements and is subject to final adjustment at the end of the year.

On November 3, and 4, 2020, our compensation committee and board of directors, respectively, acting in accordance with the Companies Law, re-approved an eight-year equity-based award of compensation—in the form of 611,771 restricted share units, or RSUs—to our chief executive officer, Mr. Guy Bernstein. The terms of the grant were described in Proposal 5 of the proxy statement for our November 2, 2020 annual general meeting of shareholders (referred to as the Proxy Statement and Annual Meeting, respectively), which was attached as Exhibit 99.1 to our Report of Foreign Private Issuer on Form 6-K furnished to the SEC on September 17, 2020 and available at the following link: https://www.sec.gov/Archives/edgar/data/1045986/000121390020027121/ea127015ex99-1_formulasys.htm

The re-approved grant modified the composition of the RSUs being granted to our chief executive officer from what was proposed in Proposal 5 at the Annual Meeting, adjusting the ratio between time-based-vesting and performance-based-vesting RSUs from 80%-20% to 66.67%-33.33%.

As previously reported by Formula in its Form 6-K furnished to the SEC on November 2, 2020, the originally-proposed grant was not approved pursuant to Proposal 5 at the Annual Meeting. In re-considering and re-approving the grant, our compensation committee and board of directors acknowledged that the requisite majority of our shareholders for the approval of Proposal 5 had not been achieved at the Annual Meeting. The committee and board nevertheless evaluated our Group's performance and achievements under the management of our chief executive officer, and in view of his expected further contribution to the Group's success, determined that the proposed grant is strongly linked to the Group's performance and the resulting increase in shareholders' value. Consequently, consistent with their authorities under the Companies Law, the compensation committee and board of directors approved the modified (as described above) award of the RSUs.

In December 2020, a motion to certify a derivative suit, referred to as the Motion, was filed against our Company by a shareholder, who is also referred to as the Plaintiff, in the district court (economic division) of Tel Aviv-Jaffa, Israel, naming each of our then acting five directors, as well as our chief executive officer and chief financial officer as defendants.

The suit challenged the legality, under the Companies Law, of, among other things, compensation approved for the chief executive officer, including the re-approval by our compensation committee and board of the subject eight-year RSU award to our chief executive officer.

On January 12, 2023, we held a special general meeting of shareholders for our shareholders to re-approve the subject grant of RSUs (reflecting the adjusted 66.67%-33.33% ratio of time-based-vesting to performance-based-vesting RSUs) to our chief executive officer. Although we believe that the legal challenge to the original re-approval, in November 2020, by the compensation committee and the board of directors of this RSU grant were without merit, we nevertheless brought the re-approval to our shareholders for the following primary reasons:

- *Changed circumstances.* The voting agreement between Asseco and our chief executive officer, which covered 1,797,973 of our ordinary shares owned by the chief executive officer, and by virtue of which Asseco formerly possessed the right to vote those shares— which stood at the heart of plaintiff’s allegation in the motion— was cancelled on December 5, 2022; and
- *Certainty.* We believed that it was in the best interest of the Company and its shareholders to provide clarity and certainty regarding the CEO’s compensation and position in the Company by having his equity-based grant re-approved by the shareholders.

The January 12, 2023 special general shareholders meeting did not re-approve the RSU grant. On January 15, and 16, 2023, our compensation committee and board of directors, respectively, acting in accordance with the Companies Law, re-approved the RSUs grant once again.

Please see Item 8.A, “Legal Proceedings” below for a description of the legal proceedings that have been brought in respect of the CEO’s RSU grant.

The award, to be granted to Emil Sharvit (2001) Consulting and Project Management Ltd., through which our chief executive officer, provides services to us grants 611,771 restricted stock units (“RSUs”) in respect of ordinary shares of Formula Systems. 66.67% of the RSUs (i.e., 407,847 RSUs) are subject to time-based vesting that shall start as of the grant date and shall end at December 31, 2027 subject to the continued engagement of our chief executive officer with us as of that date (the “Vesting Period”); and up to 33.33% of the RSUs (i.e., 203,924 RSUs as of the date hereof) are subject to performance-based vesting, and shall vest at December 31, 2027 on a pro-rata basis with respect to each fiscal year (starting as of January 1, 2020) during the Vesting Period in which the Target EBITDA (as defined below) is achieved, subject to the continued engagement of our chief executive officer with us. At the end of the vesting period, the number of performance based RSUs that vests shall be equal to (i) the number of fiscal years in which the Target EBITDA was achieved multiplied by (ii) 25,490.50 RSUs (rounded to the nearest whole number, up to a cap of 203,924 RSUs in total).

The “Target EBITDA” in a given fiscal year during the Vesting Period shall mean our EBITDA in that certain fiscal year (as reflected in the our annual audited consolidated financial statements), excluding the cost attributed to the applicable portion of the RSUs in the our annual audited consolidated financial statements for the applicable fiscal year (as to which the review of performance is made to determine whether one eighth of the Performance Based RSUs (i.e., 25,490.50 RSUs) shall become vested at the end of the Vesting Period). The Target EBITDA shall be not less than 105% of 75% of our consolidated EBITDA in the previous fiscal year, excluding the cost attributed to the applicable portion of the RSUs in our annual audited consolidated financial statements for such previous fiscal year (the “Previous Year”). Such examination of EBITDA shall be made on the basis of the our annual audited consolidated financial statements as reflected in our annual report on Form 20-F, and in the event that we sells any of our operations, the Target EBITDA shall be adjusted as applicable for future reference by removing the results of the operations that were sold.

In the event that with respect to any specific fiscal year (the “Specific Year”), the Target EBITDA is not achieved, the Target EBITDA with respect to such Specific Year will still be deemed to have been met for the purpose of vesting of RSUs in the event that either: (i) the EBITDA in the fiscal year immediately following the Specific Year was at least 110.25% of 75% of our EBITDA in the year preceding the Specific Year, or (ii) in case that the condition in the foregoing clause (i) was not met, then the EBITDA in the second fiscal year following the Specific Year was at least 115.7625% of 75% of our EBITDA in the year preceding the Specific Year. Accordingly, in case that either clause (i) or (ii) was met for a certain Specific Year, then the vesting with respect to such Specific Year shall be deemed to have been achieved, and those RSUs shall become vested as of the end of the Vesting Period. In the event that neither of the conditions described in clauses (i) or (ii) was met, the portion of RSUs for the applicable Specific Year shall automatically expire and terminate.

Notwithstanding the foregoing, in case the Target EBITDA is met (in accordance with the above terms) in a certain fiscal year, yet the Target EBITDA is less than 105% of 75% of the average EBITDA for the three fiscal years that consist of the subject fiscal year and the two preceding years (excluding the cost attributed to the applicable portion of the RSUs in our annual audited consolidated financial statements for such applicable fiscal years), then regardless of meeting the Target EBITDA, the number of performance-based RSUs that vests shall be reduced by 20%.

Total fair value of the grant was calculated based on Formula Systems share price on the grant date and equaled to NIS 170.7 million (NIS 279 per share). The total compensation expense we recorded in our statement of profit or loss, in accordance with accounting principles, for the year ended December 31, 2023, was NIS 23.8 million (approximately \$6.5 million).

In addition to the RSU grant terms described above, our board of directors has approved, following the approval by Formula's compensation committee, an adjustment to the above-described RSU grant based on dividends that we distribute to our shareholders. During the Vesting Period of the RSUs, in the event that any dividend, in cash or in kind, is distributed to our shareholders, then in addition to the distribution to all shareholders, there will be an equivalent payment to our chief executive officer with respect to all RSUs that were not converted into shares (whether or not vested) in an amount equal to the pro-rata portion of the overall dividend amount that the RSUs constitute out of our issued and outstanding share capital as of the date of the distribution. For those purposes, the RSUs will be counted as if they are already vested and converted into shares. These special RSU dividend amounts shall be paid and/or set aside by us for the benefit of our chief executive officer, all as described below.

For the purpose of payment of the Dividend Amounts to our chief executive officer, the Vesting Period shall be regarded as if it has commenced on January 1, 2021 (other than with respect to distributions and any related dividend amount which were made prior to the grant of the RSUs and which are explicitly excluded), and will be divided into 32 fiscal quarters (each, referred to as a Fiscal Quarter). The dividend amount within each dividend distributed to our shareholders will be released to, or set aside for, our chief executive officer together with the distribution of the dividend. The portion of the Dividend Amount to be released to our chief executive officer will in each case be based on the number of Fiscal Quarters that have lapsed at the time of distribution of the dividend. The remainder of the Dividend Amount will be set aside and paid to our chief executive officer on a pro-rata basis upon the expiration of each Fiscal Quarter until the Dividend Amount is released in full at the end of the Vesting Period for the RSUs. The total expense we recorded in our statement of profit or loss, in accordance with accounting principles, with respect to such dividend amounts for the year ended December 31, 2023, amounted to \$0.4 million.

In the event of termination of our chief executive officer services agreement, by us for Cause (as defined in the services agreement), the RSUs will immediately terminate and become null and void, and all interests and rights of our chief executive officer in and to the same will expire. In case of termination of our chief executive officer services agreement by us not for Cause, or due to the resignation of our chief executive officer for Good Reason, all unvested RSUs that could have vested from the grant date until December 31, 2027, assuming all performance and time conditions and future targets would have been fulfilled (including all targets that would have resulted in vesting with respect to any Previous Year which could have still been met in future years), will accelerate and become immediately vested and exercisable, regardless of the actual occurrence or failure to occur of any of the future performance targets relating to those RSUs.

In the event of resignation by our chief executive officer not for Good Reason, our chief executive officer RSUs will vest, in an accelerated manner, in such portion equal to the pro-rata portion of the Vesting Period that has already lapsed (based on the full number of Fiscal Quarters that have lapsed from January 1, 2020, until the actual resignation date, including notice period). However, any Performance Based RSUs for which the applicable target was not achieved up until the resignation date (including the notice period) will expire and terminate.

Restricted Share Grants to Chief Financial Officer

On March 13, and 14, 2021, our compensation committee and board of directors, respectively, acting in accordance with the Companies Law, awarded our Chief Financial Officer, Asaf Berenstin, 21,000 additional restricted shares under the 2021 Plan. These additional restricted shares vest on a quarterly basis over approximately five-year period, with 3,750 restricted shares, approximately 18% of the grant, vesting on the grant date with the remaining amount vested in 23 quarterly equal amounts of 750 restricted shares per quarter commencing on June 30, 2022 and concluding on December 31, 2027, provided that during such time the Chief Financial Officer continues to serve as (i) an officer of the Company and/or (ii) an officer in one of our directly held affiliates. If he fails to meet the service condition due to the request of the board of directors of either Formula or any of its directly held affiliates (other than a termination of his provision of services which is based on actions or omissions by him that will constitute “cause” under his grant agreement with Formula); then, the Chief Financial Officer will be deemed to have complied with clauses (i) or (ii) above. Notwithstanding the foregoing, if a change of control of Formula occurs, then all unvested additional restricted shares will immediately become vested. Total fair value of the grant was calculated based on the Formula share price on the grant date and amounted to NIS 6.7 million (approximately \$2.0 million), based on a share price of NIS 318. As of April 30, 2024, 9,750 out of the 21,000 restricted shares had vested.

Restricted Share Grants to Chief Operational Officer

On January 15 and 16, 2023, our compensation committee and board of directors, respectively, acting in accordance with the Companies Law, awarded our Chief Operational Officer, Maya Solomon, 15,000 restricted shares under the 2021 Plan. These restricted shares vest at certain points in time over a seven-year period, which commenced on January 16, 2023 and concluding on December 31, 2029, provided that during such time the Chief Operational Officer continued to serve as (i) an officer of the Company and/or (ii) an officer in one of our directly held affiliates (we refer to this as the Service Condition). The total fair value of the grant was calculated based on the Formula share price on the grant date and amounted to \$1.2 million (\$81.65 per share). As of April 30, 2024, none of the 15,000 restricted shares had vested.

For a description of our 2011 Share Incentive Plan and our 2021 Share Incentive Plan pursuant to which options or share awards may be granted from time to time to our directors, executive officers, employees and consultants, see “Item 6.E. Share Ownership— Arrangements Involving the Issuance or Grant of Equity Awards” below.

C. Board Practices

Pursuant to our amended and restated articles of association, or our articles, directors are generally elected at the annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented at the meeting. Our existing board of directors may also appoint a new director to the board, assuming that the then-authorized size of the board, as last approved by our shareholders, exceeds the number of directors then serving on the board, whether due to a resignation or otherwise, in which case the newly appointed director holds office until the next annual general meeting of shareholders immediately following such appointment.

Our board is currently comprised of six persons, of which each of Tomer Jacob and Relly Danon has been determined by the board to be independent within the meaning of the Listing Rules of the Nasdaq Stock Market (or the Nasdaq listing rules), on which our ADSs are listed for trading. Concurrently with the initial election of Ms. Karolina Rzonca-Bajorek and Ms. Gabriela Żukowicz to the board in August 2022, we opted, as a foreign private issuer under SEC rules, to follow Israeli law practice in lieu of the Nasdaq majority board independence requirement. Please see Item 16G below. Mr. Jacob and Ms. Danon serve as our external directors (succeeding Ms. Iris Yahal and Mr. Eli Zamir, as of May 2022, whose third three year term as external directors ended in April 2022) as mandated under Israeli law, and are therefore subject to additional criteria to help ensure their independence. See “External Directors Under the Companies Law” below. Each of our directors, except for the external directors, holds office until the next annual general meeting of shareholders and may then be re-elected. Our officers are appointed by our board of directors.

Under the Companies Law, a person who lacks the necessary qualifications and the ability to devote an appropriate amount of time to the performance of his or her duties as a director shall not be appointed director of a publicly traded company. While determining a person’s compliance with such provisions, the company’s special requirements and its scope of business shall be taken into consideration. Where the agenda of a shareholders meeting of a publicly traded company includes the appointment of directors, each director nominee should submit a declaration to the company confirming that he or she has the necessary qualifications and that he or she is able to devote an appropriate amount of time to performance of his or her duties as a director. In the declaration, the director nominee should specify his or her qualifications and confirm that the restrictions set out in the Companies Law do not apply.

Under the Companies Law, if a director ceases to comply with any of the requirements provided in the Companies Law, such director must immediately notify the company, and his or her term of service shall terminate on the date of the notice.

External Directors Under the Companies Law

Under the Companies Law, companies incorporated under the laws of Israel whose shares have been offered to the public in or outside of Israel, are required to appoint at least two external directors. This law provides that a person may not be appointed as an external director if the person is a relative of the controlling shareholder of the company or if that person or his or her relative, partner, employer, another person to whom he or she was directly or indirectly subject, or any entity under the person's control, has, as of the date of the person's appointment to serve as external director, or had, during the two years preceding that date: (a) any affiliation or other disqualifying relationship with the company, with any person or entity controlling the company or a relative of such person, or with any entity controlled by or under common control with the company; or (b) in the case of a company with no shareholder holding 25% or more of its voting rights, had at the date of appointment as an external director, any affiliation or other disqualifying relationship with a person then serving as chairman of the board or chief executive officer, a holder of 5% or more of the issued share capital or voting power in the company or the most senior financial officer. The term "affiliation" and the similar types of prohibited relationships include:

- an employment relationship;
- a business or professional relationship, even if not maintained on a regular basis (but excluding a *de minimis* level relationship);
- control; and
- service as an office holder.

The term "office holder" is defined under the Companies Law as a general manager (i.e., chief executive officer), chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of that person's title, a director and any other manager directly subordinate to the general manager.

No person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. A person may furthermore not continue to serve as an external director if he or she received, during his or her tenure as an external director, direct or indirect compensation from the company including amounts paid pursuant to indemnification or exculpation contracts or commitments and insurance coverage for his or her service as an external director, other than as permitted by the Companies Law and the regulations promulgated thereunder. If, at the time of election of an external director, all other directors who are not the company's controlling persons or their relatives are of the same gender, the external director to be elected must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

External directors are elected by a majority vote at a shareholders' meeting, provided that either:

- such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a conflict of interest (referred to under the Companies Law as a "personal interest") in the election of the external director (other than a personal interest not deriving from a relationship with a controlling shareholder) that are voted at the meeting, excluding abstentions, to which we refer as a disinterested majority, or
- the total number of shares voted by non-controlling shareholders and by shareholders who do not have a personal interest in the election of the external director against the election of the external director does not exceed two percent (2%) of the aggregate voting rights in the company.

According to regulations promulgated under the Companies Law, a person may be appointed as an external director only if he or she has professional qualifications or if he or she has accounting and financial expertise (each, as defined below). In addition, at least one of the external directors must be determined by our board of directors to have accounting and financial expertise. A director with “accounting and financial expertise” is a director that due to his or her education, experience and skills has a high expertise and understanding in financial and accounting matters and financial statements, in such a manner which allows him to deeply understand the financial statements of the company and initiate a discussion about the presentation of financial data. A director is deemed to have “professional qualifications” if he or she either (i) has an academic degree in economics, business management, accounting, law or public service, (ii) has an academic or other degree or has completed other higher education, all in the field of business of the company or relevant for his/her position, or (iii) has at least five years’ experience serving in one of the following capacities, or at least five years of cumulative experience serving in two or more of the following capacities: (a) a senior business management position in a company with a significant volume of business; (b) a senior position in the company’s primary field of business; or (c) a senior position in public administration or service. Our board of directors has determined that each of Mr. Jacob and Ms. Danon possesses requisite financial and accounting expertise, as required of our external directors under the Companies Law.

An external director may be removed from office only: (i) by a court, upon determination that the external director to be so removed ceased to meet the statutory qualifications for his or her appointment or if he or she violated his or her duty of loyalty to the company or (ii) by the same percentage of shareholders, acting through a shareholders meeting, as is required for his or her election, if the board of directors has determined that the external director to be so removed has ceased to meet the statutory qualifications for his or her appointment or violated his or her duty of loyalty to the company and has proposed the removal to the shareholders. An external director who ceases to meet the conditions for his or her service as such must notify the company immediately and such service shall cease immediately upon such notification.

The initial term of an external director is three years and may be extended by the general meeting of shareholders, for up to two additional three year terms, provided that (i) his or her service for each such additional term is recommended by one or more shareholders holding at least 1% of the company’s voting rights and is approved at a shareholders meeting by a disinterested majority, where the total number of shares held by non-controlling, disinterested shareholders voting for such reelection exceeds 2% of the aggregate voting rights in the company, provided that the external director and certain of his or her related parties meet additional independence requirements; or (ii) his or her service for each such additional term is recommended by the board of directors and is approved at a meeting of shareholders by the same majority required for the initial election of an external director.

In May 2022, Mr. Jacob and Ms. Danon were initially appointed for a three-year term as our external directors, each to hold office until May 2025. In accordance with the regulations under the Companies Law (Relief for Public Companies Whose Shares are Listed on a Stock Exchange Outside of Israel, 2000), dual listed companies, like us, whose securities are listed on the Nasdaq Global Select Market or one of a number of other non-Israeli stock exchanges, may re-appoint an external director for additional three-year terms, in excess of the nine years as described above, if the audit committee and the board of directors confirm that, due to the expertise and special contribution of the external director to the work of the board and its committees, his or her re-appointment is in the best interests of the company. The same special majority is required for election of the external director for each additional three-year term.

Each committee of a company’s board of directors is required to include at least one external director and the audit committee must include all of the external directors.

An external director is entitled to compensation as provided in regulations promulgated under the Companies Law and is otherwise prohibited from receiving any compensation, directly or indirectly, in connection with services provided as an external director or otherwise to the company.

Following the termination of an external director's service on a board of directors, such former external director and his or her spouse and children may not be provided a direct or indirect benefit by the company, its controlling shareholder or any entity under its controlling shareholder's control, including engagement to serve as an executive officer or director of the company or a company controlled by its controlling shareholder or employment by, or providing services to, any such company for consideration, either directly or indirectly, including through a corporation controlled by the former external director. This restriction extends for a period of two years with regard to the former external director and his or her spouse or child and for one year with respect to other relatives of the former external director.

Under regulations promulgated under the Companies Law, Israeli public companies whose shares are traded on certain U.S. stock exchanges, such as the Nasdaq Global Select Market, and that lack a controlling shareholder (as defined below) are exempt from the requirement to appoint external directors. Any such company is also exempt from the Companies Law requirements related to the composition of the audit and compensation committees of the board. Eligibility for these exemptions is conditioned on compliance with U.S. stock exchange listing rules related to majority board independence and the composition of the audit and compensation committees of the board, as applicable to all listed domestic U.S. companies. Because we have a controlling shareholder as determined under the Companies Law (Asseco), we are not eligible for these exemptions under the subject regulations.

Qualifications of Directors Generally Under the Companies Law

Under the Companies Law, the board of directors of a publicly traded company is required to make a determination as to the minimum number of directors (not merely external directors) who must have accounting and financial expertise (according to the same criteria described above with respect to external directors under “—External Directors Under the Companies Law”). In accordance with the Companies Law, the determination of the board should be based on, among other things, the type of company, its size, the volume and complexity of its activities and the number of directors. Based on the foregoing considerations, our board determined that the number of directors with financial and accounting expertise in our company shall not be less than one. As described above under “—External Directors Under the Companies Law,” currently Tomer Jacob, Rafal Kozlowski and Karolina Rzonca-Bajorek have been determined by the board to possess such accounting and financial expertise.

Unaffiliated Directors Under the Companies Law

Under the Companies Law, the audit committee of a publicly traded company must consist of a majority of unaffiliated directors. An “unaffiliated director” is defined as an external director or a director who meets the following criteria:

- he or she meets the qualifications for being appointed as an external director, except for (i) the requirement that the director be an Israeli resident (which does not apply to companies whose securities have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications; and
- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service.

Our audit committee complies with the foregoing required majority of unaffiliated directors.

Audit Committee

In addition to the foregoing requirement concerning the audit committee's unaffiliated director members, the Companies Law also requires more generally that public companies such as ours must appoint an audit committee, comprised of at least three directors, including all of the external directors, one of whom must serve as chairman of the committee. The chairman of the board of directors, or any director employed by or otherwise providing services on a regular basis to the company or to a controlling shareholder or any entity controlled by a controlling shareholder, may not be a member of the audit committee. Under the Companies Law, our audit committee is responsible for (i) determining whether there are deficiencies in the business management practices of the company, including in consultation with the company's internal auditor or the independent auditor, and making recommendations to the board of directors to improve such practices, (ii) determining whether to approve certain related party transactions, including transactions in which an office holder has a personal interest and whether such transaction is extraordinary or material, (iii) establishing the approval process (including, potentially, the approval of the audit committee) for certain transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, (iv) where the board of directors approves the working plan of the internal auditor, examining such working plan before its submission to the board and propose amendments thereto, (v) examining the company's internal controls and internal auditor's performance, including whether the internal auditor has sufficient resources and tools to dispose of his responsibilities (taking into consideration the company's special needs and size), (vi) examining the scope of the company's auditor's work and compensation and submitting a recommendation with respect thereto to the board of directors or the general meeting of shareholders, depending on which of them is considering the appointment of our auditor and (vii) establishing procedures with respect to the handling of company employees' complaints as to the management of the company's business and the protection to be provided to such employees. In compliance with regulations under the Companies Law, our audit committee also approves our financial statements, thereby fulfilling the requirement that a board committee provide such approval. An audit committee may not approve an action requiring its approval, unless at the time of approval a majority of the committee's members are present, of whom a majority consist of unaffiliated directors and at least one of them is an external director.

The Nasdaq listing rules and U.S. securities laws likewise require that we maintain an audit committee, all of whose members are independent of management. In accordance with the Sarbanes-Oxley Act of 2002 and the Nasdaq requirements, our audit committee's direct responsibilities include the appointment, compensation, retention and oversight of our independent auditors (which itself also requires shareholder ratification under Israeli law). The committee's U.S. and Nasdaq mandated responsibilities also include assisting the board in monitoring our financial statements and the effectiveness of our internal controls. We have adopted a formal audit committee charter that we have implemented, embodying these responsibilities.

Our audit committee consists of our two external directors, Mr. Tomer Jacob and Ms. Relly Danon. Each of Mr. Jacob and Ms. Danon qualifies as an independent director under both the Nasdaq listing rules and Rule 10A-3 of the Exchange Act. The board has furthermore determined that Mr. Jacob is an "audit committee financial expert" as defined by applicable SEC regulations. See "Item 16A. Audit Committee Financial Expert."

Compensation Committee and Compensation Policy

Under the Companies Law, the board of directors of a public company must appoint a compensation committee. The compensation committee must be comprised of at least three directors, including all of the external directors, who must constitute a majority of the members of the compensation committee. Each compensation committee member who is not an external director must be a director whose compensation does not exceed an amount that may be paid to an external director. The compensation committee is subject to the same Companies Law restrictions as the audit committee as to who may not be a member of the compensation committee. As noted above (under "External Directors Under the Companies Law"), Israeli companies whose securities are traded on stock exchanges such as the Nasdaq Global Select Market, and who do not have a controlling shareholder, do not have to meet the compensation committee composition requirements under the Companies Law. Reliance on this leniency is conditioned upon the compensation committee meeting the composition requirements of the jurisdiction where the company's securities are traded. This leniency does not apply to our company, as we have a controlling shareholder (Asseco).

The duties of the compensation committee include the recommendation to the company's board of directors of a policy regarding the terms of engagement of office holders, to which we refer as a compensation policy. That policy must be adopted by the company's board of directors, after considering the recommendations of the compensation committee, and will need to be brought for approval by the company's shareholders, which approval requires what we refer to as a Special Majority Approval for Compensation. A Special Majority Approval for Compensation requires shareholder approval by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either:

- such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a conflict of interest (referred to under the Companies Law as a "personal interest") in such compensation arrangement; or;
- the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation arrangement and who vote against the arrangement does not exceed 2% of the company's aggregate voting rights.

We initially adopted a compensation policy during 2013. Our compensation policy was not re-approved at our Annual General Meeting of Shareholders that was held on December 21, 2016. In April 2018, in accordance with Section 276A(c) of the Companies Law, our compensation committee and the board determined that the approval of the compensation policy is in the best interest of the company and exercised their right to adopt the compensation policy notwithstanding it not having been approved by the shareholders at the Annual Meeting. In December 2022, our compensation committee and board of directors re-approved our compensation policy and submitted it to our shareholders for approval at our January 12, 2023, special general shareholders meeting. Our shareholders did not approve the compensation policy at that meeting. On January 15, and 16, 2023, our compensation committee and board of directors, respectively, acting in accordance with the Companies Law, re-approved the compensation policy notwithstanding that our shareholders had not approved it.

The compensation policy serves as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement. The compensation policy must relate to certain factors, including advancement of the company's objectives, the company's business plan and its long-term strategy, and creation of appropriate incentives for office holders. It must also consider, among other things, the company's risk management, size and the nature of its operations. The compensation policy must furthermore consider the following additional factors:

- the knowledge, skills, expertise and accomplishments of the relevant office holder;
- the office holder's roles and responsibilities and prior compensation agreements with him or her;
- the relationship between the terms offered and the average compensation of the other employees of the company, including those employed through manpower companies;
- the impact of disparities in salary upon work relationships in the company;
- the possibility of reducing variable compensation at the discretion of the board of directors;
- the possibility of setting a limit on the exercise value of non-cash variable equity-based compensation; and
- as to severance compensation, the period of service of the office holder, the terms of his or her compensation during such service period, the company's performance during that period of service, the person's contribution towards the company's achievement of its goals and the maximization of its profits, and the circumstances under which the person is leaving the company.

The compensation policy must also include the following principles:

- the link between variable compensation and long-term performance and measurable criteria;
- the relationship between variable and fixed compensation, and the ceiling for the value of variable compensation;
- the conditions under which an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;
- the minimum holding or vesting period for variable, equity-based compensation; and
- maximum limits for severance compensation.

The compensation committee is responsible for (a) recommending the compensation policy to a company's board of directors for its approval (and subsequent approval by its shareholders) and (b) duties related to the compensation policy and to the compensation of a company's office holders as well as functions previously fulfilled by a company's audit committee with respect to matters related to approval of the terms of engagement of office holders, including:

- recommending whether a compensation policy should continue in effect, if the then-current policy has a term of greater than three (3) years (approval of either a new compensation policy or the continuation of an existing compensation policy must in any case occur every three years, or for a new public company, five years initially);
- recommending to the board of directors periodic updates to the compensation policy;
- assessing implementation of the compensation policy; and
- determining whether the compensation terms of the chief executive officer of the company need not be brought to approval of the shareholders.

Our board of directors has adopted a compensation committee charter setting forth the responsibilities of the compensation committee, which include:

- the responsibilities set forth in the compensation policy;
- reviewing and approving the granting of options and other incentive awards to the extent such authority is delegated by our board of directors; and
- reviewing, evaluating and making recommendations regarding the compensation and benefits for our non-employee directors.

Our compensation committee consists of our two external directors Mr. Tomer Jacob and Ms. Relly Danon. Each of the members of our compensation committee qualifies as an independent director under the Nasdaq listing rules.

Internal Auditor

Under the Companies Law, the board of directors is required to appoint an internal auditor, nominated by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Companies Law, the internal auditor may be an employee of the company but not an office holder, or an interested party (i.e., a holder of 5% or more of the voting rights in the company or of the issued share capital, the chief executive officer of the company or any of its directors, or a person who has the authority to appoint the company's chief executive officer or any of its directors), or a relative of an office holder or of an interested party. In addition, the company's independent auditor or its representative may not serve as the company's internal auditor. Our internal auditor is Mr. Eyal Weitzman.

Nasdaq Exemptions for a Foreign Private Issuer

We are a foreign private issuer within the meaning of Nasdaq listing rule 5005(a)(18), since we are incorporated in Israel and we meet the other criteria set forth for a "foreign private issuer" under Rule 3b-4(c) under the Exchange Act. Therefore, pursuant to Nasdaq listing rule 5615(a)(3), we may follow home country practice in lieu of certain provisions of the Nasdaq listing rule 5600 series and certain other Nasdaq listing rules. Please see "Item 16G. Corporate Governance" below for a description of the manner in which we rely upon home country practice in lieu of complying with certain Nasdaq listing rules.

Exculpation, Insurance and Indemnification of Directors and Officers

Our office holders consist of the individuals listed in the table under “Directors and Senior Management,” which is displayed under “Item 6. Directors, Senior Management and Employees.” Under the Companies Law, an Israeli company may not exempt an office holder from liability with respect to a breach of his or her duty of loyalty, but may exempt in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his duty of care, provided, however, that such a breach is not related to a distribution of a dividend or any other distribution by the company.

Office Holders’ Insurance. Our articles provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of the liability of any of our office holders imposed on the office holder in respect of an act performed in his or her capacity as an office holder, with respect to:

- a breach of his duty of care to us or to another person;
- a breach of his duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his act would not prejudice our interests; or
- a financial liability imposed upon him in favor of another person.

We have obtained an insurance policy covering the Formula Group’s directors’ and officers’ liability. Certain of our subsidiaries (Magic Software and its subsidiaries, Sapiens and its subsidiaries, Insync, Zap Group and its subsidiaries, Ofek Aerial Photography, Shamrad and Michpal and its subsidiaries) participate in the premium payments of the insurance, on a proportional basis. The total premium we paid during 2023 was approximately \$1,679,000 for the entire Group. On a stand-alone basis, the portion allocated to Formula and its privately-held subsidiaries amounted in 2023 to \$235,000. For 2024, the total premium we paid as a Group amounted to \$1,295,000. On a stand-alone basis, the portion allocated to Formula and its privately-held subsidiaries with respect to 2024 amounted to \$181,250.

Indemnification of Office Holders. Our articles provide that we may indemnify an office holder in respect of an obligation or expense imposed on or expended by an office holder in respect of an act performed in his capacity as an office holder as specified below:

- (i) a financial obligation imposed on him in favor of another person by any judgment, including a settlement or an arbitrator’s award approved by a court;
- (ii) reasonable litigation expenses, including attorney’s fees, expended by the office holder as a result of an investigation or proceeding instituted against him by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against him, and either (i) concluded without the imposition of any financial liability in lieu of criminal proceedings; or (ii) concluded with the imposition of a financial liability in lieu of criminal proceedings but relates to a criminal offense that does not require proof of criminal intent;
- (iii) reasonable litigation expenses, including attorneys’ fees, expended by the office holder or charged to him by a court, in proceedings instituted against him by another person, or in a criminal charge from which he was acquitted or in any criminal proceedings of a crime which does not require proof of criminal intent;
- (iv) expenses, including reasonable litigation expenses and legal fees, incurred by an office holder as a result of a proceeding instituted against such office holder in relation to (1) infringements that may impose financial sanction pursuant to the provisions of Chapter H’3 under the Israeli Securities Law, which we refer to as the Securities Law, or (2) administrative infringements pursuant to the provisions of Chapter H’4 under the Securities Law or (3) infringements pursuant to the provisions of Chapter I’1 under the Securities Law; and
- (v) payments made by the office holder to an injured party for damages suffered under Section 52(54)(a)(1)(a) of the Securities Law.

We may undertake to indemnify an office holder as aforesaid, (a) prospectively, provided that in respect of (i) above, the undertaking is limited to categories of events that in the opinion of our board of directors are foreseeable in light of our actual operations at the time that the undertaking to indemnify is given, and to the amounts or criteria that our board of directors deems reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify, but in any event no more than 25% of Formula's shareholders equity according to its most recent financial statements as of the date of the actual payment of indemnification; and (b) retroactively.

Limitations on Exemption, Insurance and Indemnification. The Companies Law provides that a company may not indemnify an office holder, enter into an insurance contract which would provide coverage for any monetary liability, or exempt an office holder from liability, with respect to any of the following:

- a breach by the office holder of his duty of loyalty unless the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his duty of care if the breach was done intentionally or recklessly, except for a breach that was made in negligence;
- any act or omission done with the intent to derive an illegal personal benefit;
- any fine levied against the office holder; or
- a counterclaim made by the company or in its name in connection with a claim against the company filed by the office holder.

In addition, under the Companies Law, indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, in specified circumstances, by our shareholders.

We have entered into undertakings to indemnify our office holders in specified limited categories of events and in specified amounts, subject to the limitations set by the Companies Law and our articles, as described above. For more information, see "Item 7.B. Related Party Transactions – Indemnification of Office Holders."

Directors' Severance Benefits Upon Termination of Employment

We have not entered into any service contracts with any members of our board of directors that provide for specific benefits upon termination of employment, as none of our directors is employed by us or otherwise subject to a consulting or similar contract with us that provides benefits upon termination of employment or service. The only severance pay benefits that we provide are provided to employees as required under Israeli law and are described below in the section titled "Employees".

D. Employees

The table below sets forth the average number of employees employed by us, as allocated among our eight subsidiaries in which we have effective control through December 31, 2023, during each of the last three fiscal years:

	Year ended December 31,		
	2021	2022	2023
Matrix	10,820	11,200	11,200
Magic Software	3,677	4,161	3,628
Sapiens	4,044	4,754	5,000
TSG	419	442	500
Michpal	216	273	302
Ofek	94	90	87
Insync	762	788	948
Zap Group	301	311	198
Shamrad	-	40	37
Total	<u>20,333</u>	<u>22,059</u>	<u>21,900</u>

The table below sets forth the average number of employees employed by us, as allocated by geographical area of employment, during each of the last three fiscal years:

	Year ended December 31,		
	2021	2022	2023
Israel	13,074	13,629	13,763
United States and Canada	3,569	3,198	3,498
Europe	1,756	2,771	1,978
Asia (mainly India)	1,922	2,453	2,650
South Africa	12	8	11
Total	<u>20,333</u>	<u>22,059</u>	<u>21,900</u>

With respect to our employees in Israel, we are subject to various Israeli labor laws and labor practices, and to administrative orders extending certain provisions of collective bargaining agreements between the Histadrut (Israel’s General Federation of Labor) and the Coordinating Bureau of Economic Organizations (the Israeli federation of employers’ organizations) to all private sector employees. For example, mandatory cost of living adjustments, which compensate Israeli employees for a portion of the increase in the Israeli consumer price index, are determined, from time to time, on a nationwide basis. Israeli law also requires the payment of severance benefits upon the termination, retirement (in some instances) or death of an employee. We meet this requirement by (i) contributing on an ongoing basis towards “managers’ insurance” funds that combine pension, insurance and, if applicable, severance pay benefits and (ii) payment of differences, if applicable. In addition, Israeli employers and employees are required to pay specified percentages of wages to the National Insurance Institute. Other provisions of Israeli law or regulation govern matters such as the length of the workday, minimum wages, other terms of employment and restrictions on discrimination.

We are also subject to the labor laws and regulations of other jurisdictions in the world where we have employees.

E. Share Ownership

As of April 30, 2024, none of our directors or officers owned any shares of our company (whether actual ordinary shares or shares issuable upon exercise of options), except for Mr. Guy Bernstein, our Chief Executive Officer, Mr. Asaf Berenstin, our Chief Financial Officer and Ms. Maya Solomon, our Chief Operational Manager, as described under “Item 6. Directors, Senior Management & Employees— B. Compensation— Option Grants to, and Service Agreement with, Chief Executive Officer” and “Item 6. Directors, Senior Management & Employees— Restricted Share Grants to Chief Financial Officer” above. None of the ordinary shares beneficially owned by Messrs. Bernstein and Berenstin or Ms. Solomon has voting rights different from those possessed by other holders of Formula’s ordinary shares.

At the current time, based on information that he has provided to us, Mr. Guy Bernstein beneficially owns 1,797,973 of Formula’s ordinary shares, in the aggregate. Please see “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders” below for more information.

At the current time, based on information that he has provided to us, Mr. Asaf Berenstin owns 31,833 of Formula’s ordinary shares, consisting of 10,000 restricted shares, 833 restricted shares and 21,000 restricted shares which were granted to him on November 13, 2014, August 17, 2017 and March 14, 2022, respectively (as described above under “Item 6. Directors, Senior Management and Employees— B. Compensation— Restricted Share Grants to Chief Financial Officer” and in Note 18(b) to our consolidated financial statements contained elsewhere in this annual report). As of April 30, 2024, 20,583 restricted shares were fully vested, with the remaining 11,250 restricted shares to be vested over 19 equal quarterly periods, which commenced on April 1, 2023 and will conclude on December 31, 2027. All restricted shares, whether vested or not, are held in the trust.

At the current time, based on information that she has provided to us, Ms. Maya Solomon owns 25,000 of Formula's ordinary shares, consisting of 10,000 restricted shares and 15,000 restricted shares which were granted to her on November 19, 2018 and on January 16, 2023, respectively (as described above under "Item 6. Directors, Senior Management and Employees— B. Compensation— Restricted Share Grants to Chief Operational Officer" and in Note 18(b) to our consolidated financial statements contained elsewhere in this annual report). Of those shares, as of April 30, 2024, 10,000 restricted shares were fully vested, with the remaining 15,000 restricted shares to be vested at certain points in time over a seven-year period, which commenced on January 16, 2023, and which concludes on December 31, 2029. All restricted shares, whether vested or not, are held in the trust.

Arrangements Involving the Issuance or Grant of Equity Awards

Formula's 2011 Share Incentive Plan

In March 2011, our board of directors adopted Formula's 2011 Share Incentive Plan, which we refer to as the 2011 Plan. Pursuant to the 2011 Plan, we may grant from time to time to our and our subsidiaries' employees, office holders (which are not Formula's controlling shareholders) and consultants' options to purchase, share based awards or restricted shares with respect to, up to an aggregate of 545,000 ordinary shares of Formula. The 2011 Plan is administered by our board of directors. The 2011 Plan provides that options, restricted shares or other stock-based awards may be granted, from time to time, to such grantees to be determined by our board of directors, at such exercise prices and with such vesting or other terms as shall be determined by the board at its sole and absolute discretion. Options may no longer be granted under the 2011 Plan.

In March 2012, our board of directors increased the amount of ordinary shares reserved for issuance under the 2011 Share Incentive Plan by 1,200,000 shares.

Of the options available for grant under the 2011 Plan, we approved the grant, in March 2011, of options to purchase 543,840 ordinary shares to our Chief Executive Officer, each to be exercisable for no consideration and, in March 2012, we approved the grant of options to purchase 1,122,782 ordinary shares to our Chief Executive Officer, each to be exercisable for NIS 0.01 per share. Please see "Item 6. Directors, Senior Management and Employees— B. Compensation— Option Grants to, and Service Agreement with, Chief Executive Officer" for a description of those grants. We have also approved the grant of 10,000 restricted shares to our Chief Financial Officer on each of November 13, 2014 and August 17, 2017 and the grant of 10,000 restricted shares to our Chief Operational Officer on November 19, 2017, in each case under the 2011 Plan. Please see "Item 6. Directors, Senior Management and Employees— B. Compensation— Restricted Share Grants to Chief Financial Officer" for a description of those grants.

Formula's 2021 Share Incentive Plan

In August 2021, our board of directors adopted Formula's 2021 Share Incentive Plan, which we refer to as the 2021 Plan. Pursuant to the 2021 Plan, we may grant from time to time to our and our subsidiaries' employees, office holders (which are not Formula's controlling shareholders) and consultants' options to purchase, share based awards or restricted shares with respect to, up to an aggregate of 350,000 ordinary shares of Formula (including 48,378 Ordinary shares that were reserved for issuance under the 2011 Plan and not subject to outstanding grants and transferred to the 2021 Plan). The 2021 Plan is administered by our board of directors. The 2021 Plan provides that options, restricted shares, or other stock-based awards may be granted, from time to time, to such grantees to be determined by our board of directors, at such exercise prices and with such vesting or other terms as shall be determined by the board at its sole and absolute discretion.

Of the options available for grant under the 2021 Plan, we approved the grant, in March 2022, of 21,000 restricted shares to our Chief Financial Officer and an aggregate of 2,400 restricted shares to employees of the Company and the grant in January 2023, of 15,000 restricted shares to our Chief Operations Officer. Please see "Item 6. Directors, Senior Management and Employees— B. Compensation" for a description of those grants.

Equity Incentive Plans of Our Subsidiaries

Our subsidiaries generally have equity incentive plans pursuant to which qualified directors, employees and consultants may be granted options or other share-based awards consisting of securities of the subsidiaries.

F. Disclosure of a registrant's action to recover erroneously awarded compensation.

Not applicable.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The following table presents information regarding the beneficial ownership (as defined in Form 20-F promulgated by the SEC) of Formula's ordinary shares (including shares represented by ADSs) as of May 10, 2024 by each person known to us to be the beneficial owner of 5% or more of Formula's ordinary shares, and by our directors and executive officers as a group, based on information provided to us by our shareholders or disclosed in public filings with the SEC. None of the holders of the ordinary shares listed in the below table has voting rights different from other holders of Formula's ordinary shares. Except where indicated otherwise, we believe, based on information furnished by these owners, that each of the beneficial owners of Formula's ordinary shares listed below has sole investment and voting power with respect to such shares.

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Ownership (2)
Asseco Poland S.A. (3)	3,958,154	25.82%
Guy Bernstein (4)	1,797,973	11.73%
Harel Insurance Investments & Financial Services Ltd.(5)	1,318,304	8.60%
Menora Mivtachim Holdings Ltd.(6)	1,091,708	7.12%
The Phoenix Holdings Ltd. (7)	1,084,026	7.07%
Yelin Lapidot Holdings Management Ltd. (8)	981,589	6.40%
Clal Insurance Enterprises Holdings Ltd. and affiliates (9)	808,061	5.27%
All directors and executive officers as a group (7 persons) (10)	1,829,306	11.93%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC, and generally includes voting or investment power with respect to securities. Ordinary shares underlying options currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the ownership percentage of the person holding such options but are not deemed outstanding for computing the ownership percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 15,332,667 ordinary shares (including 129,941 shares represented by ADSs, and shares subject to restrictions and repurchase by us) issued and outstanding as of May 10, 2024.
- (3) Based on Amendment No. 5 to Schedule 13D filed by Asseco Poland S.A., or Asseco, with the SEC on December 7, 2022. Due to the public ownership of its shares, Asseco is not controlled by any other corporation or any one individual or group of shareholders.
- (4) Based on Amendment No. 4 to Schedule 13D filed by Mr. Bernstein with the SEC on December 7, 2022. Consists of (a) (i) 1,362,822 ordinary shares held in trust for Mr. Bernstein, and (b) an additional 435,151 ordinary shares held by Mr. Bernstein.
- (5) Based on Amendment No. 6 to Schedule 13G filed by Harel Insurance Investments & Financial Services Ltd., or Harel Insurance, on January 30, 2024 with respect to its holdings as of December 31, 2023. Harel Insurance is a publicly held Israeli company. Out of the 1,318,304 ordinary shares beneficially owned by Harel Insurance as of December 31, 2023: (i) 1,183,377 ordinary shares are held for members of the public through, among others, provident funds and/or mutual funds and/or pension funds and/or insurance policies and/or exchange traded funds, which are managed by subsidiaries of Harel Insurance, each of which subsidiaries operates under independent management and makes independent voting and investment decisions; and (ii) 134,927 ordinary shares are beneficially held for Harel Insurance's own account.

- (6) Based on Amendment No. 8 to Schedule 13G filed by Menora Mivtachim Holdings Ltd., or Menora Holdings, on February 14, 2024 with respect to its holdings as of December 31, 2023. As of December 31, 2023, the subject ordinary shares are beneficially owned by Menora Holdings or by entities that are direct or indirect, wholly-owned or majority-owned, subsidiaries of Menora Holdings. Out of the 1,091,708 ordinary shares beneficially owned by Menora Holdings as of December 31, 2023: (i) 951,811 ordinary shares were beneficially owned by Menora Mivtachim Pensions and Gemel Ltd; (ii) 130,288 ordinary shares were beneficially owned by Menora Mivtachim Insurance Ltd; (iii) 8,078 ordinary shares were beneficially owned by Menora Mivtachim Vehistadrut Hamehandesim Nihul Kupot Gemel Ltd.; and (iv) 1,531 ordinary shares were beneficially owned by Shomera Insurance Company Ltd.
- (7) Based on Amendment No. 4 to Schedule 13G filed by The Phoenix Holdings Ltd., or Phoenix Holdings, on February 12, 2024 with respect to its holdings as of December 31, 2023. The ordinary shares held by Phoenix Holdings are beneficially owned by various direct or indirect, majority or wholly-owned, subsidiaries of Phoenix Holdings, or the Phoenix Subsidiaries. The Phoenix Subsidiaries manage their own funds and/or the funds of others, including for holders of exchange-traded notes or various insurance policies, members of pension or provident funds, unit holders of mutual funds, and portfolio management clients. Each of the Phoenix Subsidiaries operates under independent management and makes its own independent voting and investment decisions. As of December 31, 2023, the subject ordinary shares were held as follows: (i) The Phoenix pension and provident funds: 207; (ii) Partnership for Israeli shares: 792,093, and Partnership for investing in share indexes: 2,637 (all ownership rights in these partnerships belong to companies that are part of the Phoenix Group, and the amount of ownership rights held by such companies in the partnership changes frequently according to a mechanism provided in the partnership agreement); (iii) The Phoenix Investments House - trust funds: 282,624; and (iv) The Phoenix “nostro” accounts: 6,672.
- (8) Based on Amendment No. 5 to Schedule 13G filed by Yelin Lapidot, or Yelin, on January 31, 2024 with respect to its holdings as of December 31, 2023. Out of the 981,589 ordinary shares beneficially owned by Yelin as of December 31, 2023: (i) 650,743 are beneficially owned by provident funds managed by Yelin Lapidot Provident Funds Management Ltd., or Yelin Provident; and (ii) 330,846 are beneficially owned by mutual funds managed by Yelin Lapidot Mutual Funds Management Ltd., or Yelin Mutual. Each of Yelin Provident and Yelin Mutual is a wholly-owned subsidiary of Yelin. Each of Messrs. Dov Yelin and Yair Lapidot owns 24.38% of the share capital and 25.004% of the voting rights of Yelin, and is responsible for the day-to-day management of Yelin Lapidot Holdings. The ordinary shares beneficially owned are held for the benefit of the members of the provident funds and the mutual funds managed by Yelin Provident and Yelin Mutual, respectively. Each of Yelin, Yelin Provident, Yelin Mutual and Messrs. Yelin and Lapidot disclaims beneficial ownership of the subject ordinary shares.
- (9) Based on Amendment No.1 to Schedule 13G filed by Clal Insurance Enterprises Holdings Ltd., or Clal, on February 14, 2024 with respect to its holdings as of December 31, 2023. Clal is a publicly held Israeli company. All 808,061 ordinary shares beneficially owned by Clal as of December 31, 2023 are held for members of the public through, among others, provident funds and/or pension funds and/or insurance policies, which are managed by subsidiaries of Clal, each of which subsidiaries operates under independent management and makes independent voting and investment decisions.
- (10) Includes the shares beneficially owned by Guy Bernstein described in footnote (4) above, as well as 21,333 vested restricted shares granted to Asaf Berenstin, the Company’s Chief Financial Officer, on each of November 13, 2014, on August 17, 2017 and on March 14, 2022, under the Company’s 2011 and 2021 Employee and Officer Share Incentive Plans. Besides Mr. Bernstein, Mr. Berenstin, and Ms. Maya Solomon-Ella, the Company’s Chief Operations Officer (who was granted 10,000 restricted shares in November 2018, all of which are vested), none of our other directors or executive officers beneficially owns any ordinary shares (whether actual ordinary shares or shares issuable upon exercise of options).

Recent Significant Changes in Holdings of Major Shareholders

On November 29, 2021, Mr. Guy Bernstein sold 20,000 of our ordinary shares, representing 0.13% of our outstanding share capital, in the open market. The sales price in that transaction was NIS 368.56 per share.

On December 5, 2022, Asseco and Mr. Guy Bernstein terminated a voting agreement that had been in effect between them and which had granted Asseco certain voting rights with respect to the 1,797,973 ordinary shares owned by Mr. Bernstein. That termination reduced Asseco’s beneficial ownership of our ordinary shares from 37.3% to 25.6%.

On March 30, 2023, Asseco acquired an additional 42,553 of our ordinary shares, representing 0.28% of our outstanding share capital as of March 31, 2023, in the open market.

As of April 30, 2024, we had two shareholders of record, one of which was a United States record holder. The number of record holders is not representative of the number of beneficial holders of our ordinary shares, as the shares of all shareholders (including shares represented by ADSs) are recorded in the name of our Israeli share registrar, Israel Discount Bank Limited's registrar company. All of our ordinary shares (including shares represented by ADSs) have equal voting rights. However, under applicable Israeli law, the shares that we have repurchased and currently hold have no voting rights and, therefore, are excluded from the number of our outstanding shares.

As of April 30, 2024, 129,941 ADSs were issued and outstanding pursuant to a depositary agreement with The Bank of New York Mellon, representing approximately 0.8% of our outstanding ordinary shares. As of that date, there were approximately 58 registered holders of our ADSs, of whom approximately 50 record holders were United States residents. Such number of record holders is not representative of the actual number of beneficial holders of our ADSs in the United States.

We are unaware of any arrangements which may at a subsequent date result in a change in control of Formula.

B. Related Party Transactions

Indemnification of Office Holders

We have undertaken to indemnify each of our office holders. Our office holders' indemnification letters provide, among other things, that we will indemnify each of our office holders to the maximum extent permitted by our articles. Advance payments for coverage of legal expenses in criminal proceedings will be required to be repaid by an office holder to the company if such office holder is found guilty of a crime which requires proof of criminal intent, or if it is determined that the office holder is not lawfully entitled to such indemnification.

All of the indemnification letters granted to our office holders are identical, including indemnification letters granted to office holders who are or may be considered "controlling persons" under the Companies Law.

The indemnification is limited to the expenses and matters detailed in the indemnification letters insofar as they result from an office holder's actions in connection with, among other things, the following matters: the offering of securities by us to the public or to private investors; the offer by us to purchase securities from the public, private investors or other holders, whether pursuant to a prospectus, agreement, notice, report, tender or any other proceeding; our labor relations and/or employment matters and our trade relations; the development or testing of products developed by us, or the distribution, sale, license or use of such products; and occurrences in connection with investments made by us.

Our undertaking for indemnification is limited to up to 25% of our shareholders' equity as it appears in our latest financial statements known at the date of indemnification, calculated with respect to each director and officer of Formula.

Our undertaking for indemnification does not apply to a liability incurred as a result of any of the following:

- (i) a breach by an office holder of his or her fiduciary duty, except, to the extent permitted by law, for a breach while acting in good faith and having reasonable cause to assume that the action was in our best interest;
- (ii) a grossly negligent or intentional violation of the office holder's duty of care;
- (iii) an intentional action in which the office holder intended to reap a personal gain illegally;

- (iv) a fine, civil fine or financial sanction levied against and/or imposed upon the office holder;
- (v) a proceeding instituted against the office holder pursuant to the provisions of Chapter H'3, H'4 or I'1 under the Securities Law, except as otherwise permitted in the undertaking; or
- (vi) a counterclaim brought by us or in our name in connection with a claim against us filed by the office holder, other than by way of defense or by way of third party notice in connection with a claim brought against the office holder by us, or in specific cases in which our board of directors has approved the initiation or bringing of such suit by the office holder, which approval shall not be unreasonably withheld.

We are not required to indemnify an office holder if the office holder, or anyone on his or her behalf, already received payment in respect of a liability subject to indemnification, under an effective insurance coverage or an effective indemnification arrangement with a third party. However, if that payment made to the office holder does not cover the entire liability subject to the indemnification, we will indemnify the office holder in respect of the difference between the amount paid to the office holder and the liability subject to the indemnification.

Office Holders' Insurance

We have obtained an insurance policy covering the Formula Group's D&O liability. Our subsidiaries participate in the premium payments of the insurance policy, on a proportional basis. The current coverage of that policy is up to a maximum of \$40.0 million both per incident and in the aggregate, plus \$10.0 million of Side A DIC coverage, for a total annual premium of \$1,679,000 for the period starting on February 14, 2023 and ending on February 13, 2024. On February 14, 2024, we have renewed our insurance policy covering the Formula Group's D&O liability for another year for a total annual premium of \$1,295,000 million to be allocated between our subsidiaries excluding Matrix.

Service Agreement with our Chief Executive Officer

We are party to a written service agreement with our Chief Executive Officer, Mr. Guy Bernstein, which was entered into in December 2008 and was amended in March 2011 and in March 2012. This agreement provides for early termination by either side upon 180 days advance written notice, during which time the Chief Executive Officer will continue to receive service fees. This agreement furthermore contains customary provisions regarding nondisclosure, confidentiality of information and assignment of inventions.

RSU Grant to Chief Executive Officer

On November 3, and 4, 2020, our compensation committee and board of directors, respectively, acting in accordance with the Companies Law, re-approved an eight-year equity-based award of compensation—in the form of 611,771 restricted share units, or RSUs—to our chief executive officer, Mr. Guy Bernstein. The terms of the grant were described in Proposal 5 of the proxy statement for Formula's November 2, 2020 annual general meeting of shareholders (referred to as the Proxy Statement and Annual Meeting, respectively), which was attached as Exhibit 99.1 to Formula's Report of Foreign Private Issuer on Form 6-K furnished to the SEC on September 17, 2020 and available at the following link:

https://www.sec.gov/Archives/edgar/data/1045986/000121390020027121/ea127015ex99-1_formulasys.htm

The re-approved grant modifies the composition of the RSUs being granted to our chief executive officer from what was proposed in Proposal 5 at the Annual Meeting, adjusting the ratio between time-based-vesting and performance-based-vesting RSUs from 80%-20% to 66.67%-33.33%.

As we have previously reported in our Form 6-K furnished to the SEC on November 2, 2020, the originally-proposed grant was not approved pursuant to Proposal 5 at the Annual Meeting. In re-considering and re-approving the grant, our compensation committee and board of directors acknowledged that the requisite majority of our shareholders for the approval of Proposal 5 had not been achieved at the Annual Meeting. The committee and board nevertheless evaluated our Group's performance and achievements under the management of Mr. Bernstein, and in view of his expected further contribution to the Group's success, determined that the proposed grant is strongly linked to the Group's performance and the resulting increase in shareholders' value. Consequently, consistent with their authorities under the Companies Law, the compensation committee and board of directors approved the modified (as described above) award of the RSUs.

In December 2020, a motion to certify a derivative suit, referred to as the Motion, was filed against our Company by a shareholder, who is also referred to as the Plaintiff, in the district court (economic division) of Tel Aviv-Jaffa, Israel, naming each of our then acting five directors, as well as our chief executive officer and chief financial officer as defendants.

The suit challenged the legality, under the Companies Law, of, among other things, compensation approved for the chief executive officer, including the re-approval by our compensation committee and board of the subject eight-year RSU award to our chief executive officer.

On January 12, 2023, we held a special general meeting of shareholders for our shareholders to re-approve the subject grant of RSUs (reflecting the adjusted 66.67%-33.33% ratio of time-based-vesting to performance-based-vesting RSUs) to our chief executive officer. Although we believe that the legal challenge to the original re-approval, in November 2020, by the compensation committee and the board of directors of this RSU grant were without merit, we nevertheless brought the re-approval to our shareholders for the following primary reasons:

- *Changed circumstances.* The voting agreement between Asseco and our chief executive officer, which covered 1,797,973 of our ordinary shares owned by the chief executive officer, and by virtue of which Asseco formerly possessed the right to vote those shares— which stood at the heart of plaintiff's allegation in the motion— was cancelled on December 5, 2022; and
- *Certainty.* We believed that it was in the best interest of the Company and its shareholders to provide clarity and certainty regarding the CEO's compensation and position in the Company by having his equity-based grant re-approved by the shareholders.

The January 12, 2023 special general shareholders meeting did not re-approve the RSU grant. On January 15, and 16, 2023, our compensation committee and board of directors, respectively, acting in accordance with the Companies Law, re-approved the RSUs grant once again.

Please see Item 8.A, "Legal Proceedings" below for a description of the legal proceedings that have been brought in respect of the CEO's RSU grant.

Services Obtained from Asseco

During 2023, Asseco provided back-office services, professional services and fixed assets to Sapiens' wholly-owned subsidiary, Sapiens Poland, in an amount totaling approximately \$0.2 million.

Services Provided to Asseco

During 2023, Sapiens Poland performed services as a sub-contractor on behalf of Asseco for clients of Asseco in a total amount of approximately \$3.5 million. For historical reasons, Asseco issues invoices to those clients and then Sapiens in turn invoices Asseco on a back-to-back basis (with no margin to Asseco).

Fees Paid for Board Services in Affiliates

Sapiens paid us approximately \$28,288 U.S. dollar in respect of their share of the director's fees of Guy Bernstein, their Chairman, for the year ended December 31, 2023.

Matrix paid us approximately \$27,000 in respect of their share of the director's fees of Guy Bernstein, their Chairman, for the year ended December 31, 2023. Mr. Bernstein serves as the Chief Executive Officer of Formula.

Other Transactions

As of December 31, 2023, we had trade payables balances due to, and trade receivables balances due from, our related parties in amounts of approximately \$1.2 million and \$1.0 million, respectively.

From time to time, in our ordinary course of business, we engage in non-material transactions with our subsidiaries and affiliates where the amount involved in, and the nature of, the transactions are not material to any party to the transaction. We believe that these transactions are made on an arms' length basis upon terms and conditions no less favorable to us, our subsidiaries and affiliates, as we could obtain from unaffiliated third parties. If we engage with our subsidiaries and affiliates in transactions which are not in the ordinary course of business, we receive the approvals required under the Companies Law. These approvals include audit committee approval, board approval and, in certain circumstances, shareholder approval. See "Item 6.C. Board Practices."

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial Statements

Our consolidated financial statements and other financial information are incorporated herein by reference to "Item 18. Financial Statements" below.

Export Sales

In 2023, 38.9% of our revenues originated from customers located outside of Israel. For information on our revenues breakdown by geographic market for the past three years, see "Item 4.—Information on the Company— Business Overview— Geographical Distribution of Revenues."

Legal Proceedings

From time to time, we are subject to legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business, including claims with respect to intellectual property, contracts, employment and other matters. In Accordance with IFRS, we accrue a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in the determination of both the probability and as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. We intend to vigorously defend ourselves against the above claims, and we generally intend to vigorously defend any other legal claims to which we are subject. While for most litigation, the outcome is difficult to determine, to the extent that there is a reasonable possibility that the losses to which we may be subject could exceed the amounts (if any) that it has already accrued, we attempt to estimate such additional loss, if reasonably possible, and disclose it (or, if it is an immaterial amount, indicate accordingly). The aggregate provision that we have recorded for all other legal proceedings (other than the particular material proceedings described below) is not material. Furthermore, in respect of our ordinary course legal, administrative and regulatory proceedings (i.e., other than the particular material proceeding described below), we estimate, in accordance with the procedures described above, that as of the current time there is no reasonable possibility that we will incur material losses exceeding the non-material amounts already recognized.

Legal Proceedings Related to Formula's CEO's RSU Grant

On November 23, 2020, Olir Trade and Industries Ltd. (“Olir”) filed a derivative action and a motion to certify a derivative action, with the District Court (Economic Division) of Tel Aviv-Jaffa, Israel (Derivative Action No. 58348-11-20) (the “Claim” and the “Motion to Certify”, respectively) (as reported in our Report of Foreign Private Issuer on Form 6-K furnished to the SEC on December 9, 2020). In the framework of the Motion to Certify, Olir requested permission to file the Claim, on our behalf, against each of our five directors, as well as our chief executive officer, Mr. Guy Bernstein, and chief financial officer, Mr. Asaf Berenstin, as defendants. We and the named defendants are all listed as respondents to the Motion to Certify. The Claim challenges the legality, under the Companies Law, of compensation awarded to the our chief executive officer and chief financial officer, including past engagements with our chief executive officer and our compensation committee and board of directors recent re-approval (as reported in our Report of Foreign Private Issuer on Form 6-K furnished to the SEC on November 4, 2020), of the eight-year equity-based award of compensation—in the form of 611,771 restricted share units—to our chief executive officer. The Claim includes allegations of breaches of fiduciary duties (duty of care and duty of loyalty) and the oppression of minority shareholders and unjust enrichment. The Claim seeks an accounting from the defendants as to the alleged harm caused to Formula Systems, as well as compensation to Formula Systems for such harm. The Claim also seeks a declaratory order preventing the board of directors from using voting powers allegedly granted to it under agreements related to our ADSs. We reject all claims made by Olir and believe that all actions taken by our board of directors and our committees were taken in accordance with the Companies Law, for Formula’s benefit, and based upon advice of legal counsel. All respondents intend to vigorously defend against the Motion to Certify, and on May 13, 2021, all respondents filed their responses to the Motion to Certify.

On May 19, 2021, we filed a motion asking the court to order Olir to deposit a guarantee for our costs in the proceedings. On June 23, 2021, Olir filed its response to the motion. The parties held mediation meetings. The mediation meetings took place on February 16, 2022, May 17, 2022 and May 24, 2022. The mediation ended without the parties reaching an agreement. On June 16, 2022, following the oral argument at the pre-trial hearing, the district court accepted our request and ordered Olir to deposit a guarantee for the Formula’s costs. Olir deposited the guarantee and paid Formula the costs as ordered. in the proceedings in the amount of NIS 0.2 million. On January 24, 2023, we submitted a request for dismissal *in limine* of the motion to certify due to a change in the factual grounds of the motion including, among other things, the reapproval of the compensation given to our chief executive officer by a new and independent board of directors made on January 15, 2023. The court asked the other parties to respond to the request for dismissal by March 1, 2023. A cross examinations hearing was held on January 31, 2023. On March 1, 2023, the other respondents to the motion to certify submitted their responses to the request for dismissal in which they supported the request. On March 8, 2023, Olir filed its objection to the dismissal *in limine*. On April 13, we submitted our response to Olir’s response. Olir filed its briefs by September 18, 2023. On December 3, 2023, we filed a motion to render a decision in the motion to dismiss *in limine*. On December 5, 2023, the court granted our motion to dismiss *in limine*, and ordered us to pay Olir’s costs in an amount of NIS 45,000. On January 25, 2024, Olir filed an appeal against the District Court’s decision, with the Israeli Supreme Court. Olir failed to attach to its appeal the pleadings regarding the motion to dismiss. On March 26, 2024, all respondents notified the Supreme Court that they believe that Olir acted in bad faith and contrary to the rule of law when it did not attach essential documents to the notice of appeal and drafted a misleading notice of appeal. The respondents argued that those actions had real implications on the pre-appeal hearing, as the court lacked the respondents’ position and claims. Therefore, the respondents requested that their position be heard at a bench hearing of the court. A bench hearing is now scheduled for February 5, 2025. The respondents are required to file their response to Olir’s appeal by June 10, 2024. At this stage of the proceedings, we believe that the chances for the approval of Olir’s Motion to Certify are low.

Legal Proceedings related to Matrix

On December 3, 2023, our subsidiary Matrix received a request for disclosure of materials pursuant to Section 198a of the Companies Law, which was submitted to the District Court (Economic Division) of Tel Aviv-Jaffa by an individual who claimed to be a shareholder of Matrix. The request related to a potential derivative claim that could be filed by the individual, on Matrix’s behalf, against Matrix’s chief executive officer and each of its directors related to the procedure for the approval of compensation awarded to Matrix’s chief executive officer following the rejection of such compensation by Matrix’s general meeting of shareholders and the re-approval of that compensation by Matrix’s compensation committee and board of directors, respectively, acting in accordance with the Companies Law. Matrix filed a response to the disclosure request in which Matrix requested that the court deny, on various grounds, the request made by the potential plaintiff. At this early stage of this legal proceeding we cannot predict its outcome.

Legal Proceedings related to Zap Group:

On December 24, 2019, a motion for the approval of a class action (#60508-02-20), in an amount of NIS 793.8 million (approximately \$225.6 million), was filed against Zap Group with the Israeli district court (central district), claiming that Zap Group had allegedly generated income illegally from paying customers through the 'ZAP's price comparison' website. At the pre-trial hearing, it was decided that the plaintiffs would file an explanation to the court as to why they believed they were fit to serve as class action plaintiffs and why they had performed prohibited clicks on their competitor's websites through Zap Group's website. In addition, the plaintiffs were requested to update whether they were willing to reduce the amount of the claim. On July 15, 2021, the plaintiffs filed a motion to reduce the amount of the claim to NIS 63 million (approximately \$17.9 million). On December 15, 2021, a pre-trial hearing took place, in which the court clarified that it does not intend to interfere with Zap Group's business considerations regarding the click filtering mechanisms that it operates. The court recommended that the plaintiffs reach an agreed solution with Zap Group on the issue of the necessary disclosure that Zap Group should include in its contracts with customers (as available on its website). The parties were requested to file a joint notice in accordance with the court's recommendation by January 15, 2022. The plaintiffs submitted a request for an extension to file the notice. On April 5, 2022, the plaintiffs filed a notice with the court stating that they had not reached agreements with Zap Group and therefore seek to set the case for evidentiary hearing. On December 12, 2022 the parties filed a joint notice with the court stating their agreement to initiate a mediation process. A mediation meeting took place on February 6, 2023. The mediation ended without the parties reaching an agreement. A date for a hearing has not yet been set. As this claim was filed against Zap Group prior to its acquisition by Formula, any potential liability of Zap Group resulting from the proceedings is covered by the indemnification obligations of the former shareholders of Zap Group to Formula.

On December 30, 2021, Ronen Har Even, Galit Har Even and TV Center Ltd. (the "Plaintiffs") submitted a monetary claim in the sum of NIS 24.5 million (approximately \$7.0 million) and a claim for the grant of a mandamus order against Zap Group, in the District Court at Haifa. The Plaintiffs allege that Zap Group constitutes a monopoly in the provision of price comparison services in the online arena in Israel, and excluded the Plaintiffs' business from the E-commerce arena in Israel. According to the Plaintiffs, Zap Group prevented price comparisons between the prices of the Plaintiffs' televisions and the prices of the televisions of the official importers, by causing systemic manipulations aimed at excluding the television models sold by the Plaintiffs and blurring the fact that they are cheaper in the search results. As mentioned in the Statement of Claim, concurrent with submission of the Claim, on April 19, 2021, the Plaintiffs submitted a complaint against Zap Group to the Israel Competition Authority, and on August 18, 2021 and October 21, 2021, submitted supplements to the aforesaid complaint. On June 1, 2022, Zap Group submitted a statement of defense, denying the Plaintiffs' allegations and in particular the Plaintiffs' argument that Zap Group has a monopoly in the provision of price comparison services in the online arena in Israel. On July 19, 2022, a pre-trial hearing took place, at the end of which it was held that the Parties must conclude the discovery proceedings by September 10, 2022, and that should any of the Parties wish to submit a motion following receipt of the answers, they must do so by November 15, 2022. On November 15, 2022 the Plaintiffs submitted a motion for the grant of an order of discovery of documents and answer to interrogatories. On December 20, 2022, Zap Group submitted its response to the motion, in which it rejected all of the Plaintiffs' demands. The Plaintiffs provided Zap Group with the documents that had been disclosed by them in the case, without a suitable legend. On January 3, 2023, Zap Group submitted a motion to obligate the Plaintiff's to deposit a bond to cover Zap Group's expense in the event the claim was dismissed. On January 13, 2023, the Plaintiffs submitted a response to the motion. On January 16, 2023, a pre-trial hearing took place, in which Zap Group insisted on the receipt of a suitable legend for the documents that had been disclosed to it by the Plaintiffs. The Court held that the Plaintiffs would deliver a suitable legend within 45 days, after which Zap Group would be entitled to submit a suitable motion in this regard within 30 days, should the need to do so arise. On March 5, 2023, the Plaintiffs submitted a new document file in the context of the discovery proceedings, and an updated legend that was almost identical to the previous one. For that reason, on April 3, 2023, Zap Group submitted a motion petitioning the Court to dismiss the Statement of Claim due to breach of the Court's decision to provide the discovery materials in a proper manner or, alternatively, to issue an order mandating the Plaintiffs provide a suitable legend, per the Court's prior decision. On July 19, 2023, the Court instructed the Plaintiffs to submit updated disclosure documents with a suitable legend and organized as requested by the Court. The Court also charged the Plaintiffs with expenses in an amount of NIS 10,000 in connection with this motion. On September 20, 2023, the Plaintiffs submitted updated disclosure documents that did not meet the Court's instructions. As a result, on October 30, 2023 Zap Group submitted an additional motion to dismiss as a result of ignoring the Court's order on the matter. On November 28, 2023, the Plaintiffs submitted their response to the motion, resulting in the Court allowing Zap Group to raise claims regarding this matter in the next hearing. On March 5, 2024 the Court rejected the Plaintiffs' motion petitioning the Court to order additional discovery as well as most of the Plaintiffs' motion requesting the Court order Zap Group to provide answers to certain questions. Zap Group provided the Plaintiffs with answers to the remaining questions on April 2, 2024. The Plaintiffs must submit affidavits of primary testimony by June 30, 2024 and Zap Group must submit affidavits of primary testimony 90 days afterward. In light of the early stage of the proceedings, it is not possible to estimate the likelihood of success of the lawsuit.

In November 2023, “Safra”, a subsidiary of Zap Group, was added as defendant to a lawsuit filed by the estate of the deceased Klil Kimchi, who died in an accident in a swimming pool in a private house during a social event organized by Safra and another company. The deceased was invited as a guest of the other company. The total claim is NIS 9,645 thousands. The other company has filed a third-party notice against Safra. As of May 7, 2024, Safra submitted a statement of defense as well as a third-party notice on its behalf, and no statements of defense have yet been submitted to the third-party notice submitted by the company. The lawsuit is at a very early stage and preliminary proceedings are currently taking place between the parties and in light of the early stage, it is not possible to estimate the likelihood of success of the lawsuit. The subject incident (in which the deceased died) took place before Zap Group acquired Safra; therefore, any potential liability of Zap Group resulting from the proceedings is covered by the indemnification obligations of the former shareholders of Safra to Zap Group.

Dividend Policy

Under Israeli law, dividends may be paid by an Israeli company only out of profits and other surplus as calculated under Israeli law, as of the end date of the most recent financial statements or as accrued over a period of two years, whichever amount is greater, and provided that there is no reasonable concern that payment of a dividend will prevent the company from satisfying its existing and foreseeable obligations as they become due. See “Item 10. Additional Information—Memorandum and Articles of Association—Dividend and Liquidation Rights” below (the content of which is incorporated by reference to Exhibit 2.2 to this annual report) for more information.

Formula

Under Formula Systems’ dividend policy adopted by our board of directors, sums that are not planned to be used for investments in the near future may be distributed to its shareholders as a cash dividend, to the extent that our performance allows such distribution. In the three most recent fiscal years (and in 2022 up to the date of this annual report), Formula has made the following distributions:

In March 2024, Formula declared a cash dividend to its shareholder of NIS 2.30 per share (approximately \$0.63 per share), which was paid on April 18, 2024. The aggregate amount distributed by Formula was NIS 35.3 million (approximately \$10.0 million).

In November 2022, Formula declared a cash dividend to its shareholders of NIS 2.16 per share (approximately \$0.62 per share), which was paid on December 20, 2022. The aggregate amount of the dividend was approximately NIS 33.1 million (approximately \$9.6 million).

In March 2022, Formula declared a cash dividend to its shareholders of NIS 2.56 per share (approximately \$0.78 per share), which was paid in April 2022. The aggregate amount distributed by Formula was approximately NIS 39.2 million (approximately \$12.0 million).

Magic Software

In August 2017, Magic Software’s board of directors amended its dividend distribution policy, whereas, each year Magic Software will distribute a dividend of up to 75% of its annual net income attributable to its shareholders (previously 50%), subject to applicable law. Magic Software’s board of directors may at its discretion and at any time, change, whether as a result of a one-time decision or a change in policy, the rate of dividend distributions or decide not to distribute a dividend. The dividend is to be distributed on a semi-annual basis. Pursuant to that policy, Magic Software has distributed the following amounts in recent years:

In August 2023, Magic Software declared a cash dividend to its shareholders of \$0.327 per share (or approximately \$16.1 million, in the aggregate), which was paid during September 2023, of which \$8.6 million was paid to non-controlling interests.

In March 2023, Magic Software declared a cash dividend to its shareholders of \$0.3 per share (or approximately \$14.7 million, in the aggregate), which was paid during April 2023, of which \$7.9 million was paid to non-controlling interests.

In August 2022, Magic Software declared a cash dividend to its shareholders of \$0.29 per share (or approximately \$14.2 million, in the aggregate), which was paid during September 2022, of which \$7.7 million was paid to non-controlling interests.

In March 2022, Magic Software declared a cash dividend to its shareholders of \$0.216 per share (or approximately \$10.6 million, in the aggregate), which was paid during April 2022, of which \$5.8 million was paid to non-controlling interests.

Matrix

In August 2010, Matrix's board of directors decided to change Matrix's dividend distribution policy, whereby in every year, Matrix will distribute a dividend at a rate of 75% (instead of 50% before) of its annual net income. The dividend is to be distributed on a quarterly basis. Pursuant to that policy, Matrix has distributed the following amounts in recent years:

In March 2024, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 80.7 million (approximately \$21.7 million), of which \$11.3 million was paid to non-controlling interests in April 2024.

In August 2023, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 43.8 million (approximately \$11.5 million), of which \$6.0 million was paid to non-controlling interests in September 2023.

In May 2023, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 45.1 million (approximately \$12.4 million), of which \$6.4 million was paid to non-controlling interests in June 2023.

In March 2023, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 37.5 million (approximately \$10.2 million), of which \$5.3 million was paid to non-controlling interests in April 2022.

In November 2022, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 34.6 million (approximately \$10.2 million), of which \$5.3 million was paid to non-controlling interests in December 2022.

In August 2022, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 164.2 million (approximately \$50.4 million), of which \$25.6 million was paid to non-controlling interests in August 2022.

In May 2022, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 44.7 million (approximately \$12.9 million), of which \$6.6 million was paid to non-controlling interests in June 2022.

In March 2022, Matrix declared a cash dividend to its shareholders in an aggregate amount of NIS 40.9 million (approximately \$12.7 million), of which \$6.5 million was paid to non-controlling interests in April 2022.

In August 2019, Sapiens' board of directors adopted a dividend policy, and in May 2022, it updated that policy. Under that updated policy, on a semi-annual basis, after publishing (i) its annual audited consolidated financial statements in its annual report on Form 20-F, and (ii) its financial statements for the quarter and six months ended June 30, Sapiens' board of directors will announce, and distribute, a semi-annual cash dividend in an aggregate amount (between both dividends in total) of up to 40% of its annual net profit (on a non-GAAP basis). Sapiens' board of directors may change, whether as a result of a one-time decision or a change in policy, the rate or frequency of dividend distributions and/or decide not to distribute a dividend. The distribution of dividends will be made in compliance with Cayman Islands law, Sapiens' articles of association, as well as its contractual obligations. Since the adoption of this dividend policy, Sapiens has declared cash dividends, initially on an annual basis and subsequently on a semi-annual basis, most recently in amounts of \$0.47 per share, \$0.23 per share, \$0.25 per share \$0.26 per share and \$0.28 per share, or \$25.9 million, \$12.7 million, \$13.8 million, \$14.4 million and \$15.6 million in the aggregate, which were paid in May 2022, August 2022, April 2023, August 2023 and April 2024 of which \$14.5 million, \$7.1 million, \$7.7 million, \$8.2 million and \$8.8 million were paid to non-controlling interests, respectively.

B. Significant Changes

Since the date of our consolidated financial statements included in this annual report, there has not been a significant change in our company.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares have been trading on the TASE under the symbol "FORTY" since our initial public offering in 1991.

Our ADSs are listed on the Nasdaq Global Select Market since October 1997 under the symbol "FORTY." Each ADS represents one ordinary share.

For a description of the ADSs, see "Item 12. Description of Securities Other Than Equity Securities— D. American Depositary Shares."

B. Plan of Distribution

Not applicable.

C. Markets

Since our initial public offering in 1991, our ordinary shares have been traded in Israel on the TASE under the symbol "FORT." No U.S. trading market exists for the ordinary shares. Since October 1997, our ADSs have been traded on the Nasdaq Global Select Market, under the symbol "FORTY." Each ADS represents one ordinary share and is evidenced by an American depositary receipt, or ADR. The ADRs were issued pursuant to a Depositary Agreement entered into with the Bank of New York Mellon.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

The information called for by this Item 10.B of Form 20-F has been provided in Exhibit 2.2 to this annual report. The content of Exhibit 2.2 is incorporated by reference herein.

C. Material Contracts

Please see “Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Company Commitments” for a description of the terms of the trust agreements to which we are party in connection with our Series A Secured Debentures and Series C Secured Debentures, and Sapiens’ Series B Debentures. Please see “Item 6. Directors, Senior Management and Employees—B. Compensation—Option Grants to, and Service Agreement with, Chief Executive Officer” for a description of our service agreement with our Chief Executive Officer, Mr. Guy Bernstein. Beyond those agreements, Formula is not party to, and has not been party to in the last two years, any material contract entered into outside of its ordinary course of business. In addition, while our subsidiaries are party and have been party in the last two years to numerous contracts with customers, resellers and distributors, such contracts are entered into in the ordinary course of business. Furthermore, we do not deem any other individual contract entered into by any of our subsidiaries outside of the ordinary course of business (such as investment or acquisition agreements) during the last two years to be material to us on a consolidated basis.

D. Exchange Controls

Under current Israeli regulations, we may pay dividends or other distributions in respect of our ordinary shares either in Israeli or non-Israeli currencies. If we make these payments in Israeli currency, they will be freely converted, transferred and paid in non-Israeli currencies at the rate of exchange prevailing at the time of conversion. We expect, therefore, that dividends, if any, that we pay to holders of ADSs, will be paid in dollars, net of conversion expenses, expenses of the depository for our ADSs, the Bank of New York Mellon, and Israeli income taxes (if applicable). Because exchange rates between the NIS and the dollar fluctuate continuously, a U.S. shareholder will be subject to the risk of currency fluctuations between the date when we declare NIS-denominated dividends and the date when we pay them in NIS. See “Item 3. Key Information—Risk Factors.”

Non-residents of Israel may freely hold and trade our ADSs or ordinary shares pursuant to the general permit issued under the Israeli Currency Control Law, 1978. Neither our articles nor the laws of the State of Israel restrict in any way the ownership of our ordinary shares by non-residents, except that these restrictions may exist with respect to citizens of countries that are in a state of war with Israel.

E. Taxation

The following is a short summary of the material provisions of the tax environment to which shareholders may be subject. This summary is based on the current provisions of tax law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the discussion will be accepted by the appropriate tax authorities or the courts.

The summary does not address all of the tax consequences that may be relevant to all holders of our ordinary shares and ADSs in light of each holder’s particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our ordinary shares and ADSs should consult their own tax adviser as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares and ADSs. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal adviser.

Israeli Taxation Considerations for Our Shareholders

Tax Consequences Regarding Disposition of Our ADSs or Ordinary Shares

Israeli law generally imposes a capital gain tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares of Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The Tax Ordinance distinguishes between "Real Capital Gain" and "Inflationary Surplus". The Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus.

Capital gain

Israeli Resident Individuals

As of January 1, 2012, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares, whether or not listed on a stock exchange, is 25%, unless such shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares, in which case the gain will generally be taxed at a rate of 30%. However, if such shareholder is considered a Substantial Shareholder (i.e., a person who holds, directly or indirectly, alone or together with another person who collaborates with such person on a permanent basis, 10% or more of any of the company's "means of control" (including, among other things, the right to receive profits of the company, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a director)) at the time of sale or at any time during the preceding 12-month period, such gain will be taxed at the rate of 30%. Individual shareholders dealing in securities in Israel are taxed at their marginal tax rates applicable to business income (up to 47% in 2018 and thereafter, excluding excess tax, if applicable, as described below).

Israeli Resident Corporations

Under current Israeli tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate. As described above, the corporate tax rate since 2018 has been 23%.

Non-Israeli Resident Shareholders

Israeli capital gain tax is imposed on the disposal of capital assets by a non-Israeli resident if such assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company; or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller's country of residence provides otherwise. As mentioned above, Real Capital Gain is generally subject to tax at the corporate tax rate (23% in 2018 and thereafter) if generated by a company, or at the rate of 25% if generated by an individual, or 30%, if generated by an individual who is a "substantial shareholder" (as defined under the Tax Ordinance), at the time of sale or at any time during the preceding 12-month period (or if the shareholder claims a deduction for interest and linkage differences expenses in connection with the purchase and holding of such shares). A "substantial shareholder" is generally a person who alone or together with such person's relative or another person who collaborates with such person on a permanent basis, holds, directly or indirectly, at least 10% of any of the "means of control" of the corporation. "Means of control" generally include, among others, the right to vote, receive profits, nominate a director or an executive officer, receive assets upon liquidation, or order someone who holds any of the aforesaid rights how to act, regardless of the source of such right. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 47% for an individual in 2018 and thereafter (excluding excess tax as discussed below)) unless contrary provisions in a relevant tax treaty apply.

Notwithstanding the foregoing, shareholders who are non-Israeli residents (individuals and corporations) generally should be exempt from Israeli capital gain tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, provided, among other things, that (i) such gains are not generated through a permanent establishment that the non-Israeli resident maintains in Israel, (ii) the shares were purchased after being listed on a recognized stock exchange. However, non-Israeli corporations will not be entitled to the foregoing exemptions if Israeli residents (a) have a controlling interest of more than 25% in such non-Israeli corporation, or (b) are the beneficiaries of or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Such exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

In addition, a sale of shares may be exempt from Israeli capital gain tax under the provisions of an applicable tax treaty. For example, under the U.S.-Israel Tax Treaty, or the U.S-Israel Treaty, the sale, exchange or disposition of shares of an Israeli company by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Treaty) holding the shares as a capital asset is exempt from Israeli capital gain tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting rights during any part of the 12-month period preceding such sale, exchange or disposition; (ii) the shareholder, if an individual, has been present in Israel for a period or periods of 183 days or more in the aggregate during the applicable taxable year; (iii) the capital gain arising from such sale are attributable to a permanent establishment of the shareholder which is maintained in Israel; (iv) the capital gain arising from such sale, exchange or disposition is attributed to real estate located in Israel; (v) the capital gain arising from such sale, exchange or disposition is attributed to royalties; or (vi) the shareholder is a U.S. resident (for purposes of the U.S.-Israel Treaty) and is not holding the shares as a capital asset. In each case, the sale, exchange or disposition of such shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Treaty, a U.S. resident would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S-Israel Treaty does not provide such credit against any U.S. state or local taxes.

In some instances where our shareholders may be liable for Israeli tax on the sale of their ordinary shares and ADSs, the payment of the consideration may be subject to the withholding of Israeli tax at source. Shareholders may be required to demonstrate that they are exempt from tax on their capital gains in order to avoid withholding at source at the time of sale. Specifically, in transactions involving a sale of all of the shares of an Israeli resident company, in the form of a merger or otherwise, the ITA may require from shareholders who are not liable for Israeli tax to sign declarations in forms specified by this authority or obtain a specific exemption from the ITA to confirm their status as non-Israeli resident, and, in the absence of such declarations or exemptions, may require the purchaser of the shares to withhold taxes at source.

Taxes Applicable to Dividends

Israeli Resident Shareholders

Israeli Resident Individuals. Israeli residents who are individuals are generally subject to Israeli income tax for dividends paid on our ordinary shares (other than bonus shares or share dividends) at 25%, or 30% if the recipient of such dividend is a Substantial Shareholder (as detailed above) at the time of distribution or at any time during the preceding 12-month period. Sapiens received a Tax Ruling, which was extended, under which dividends paid by Sapiens to Israeli shareholders who are individuals will be subject to withholding tax at source at the rate of 25% and in case of Israeli resident corporations— 0%, regardless the source of the dividends. We cannot guarantee that the Tax Ruling will be extended beyond December 31, 2024.

Israeli Resident Corporations. Israeli resident corporations are generally exempt from Israeli corporate tax for dividends paid on shares of Israeli resident corporations (like our ordinary shares and ADSs).

Non-Israeli Resident Shareholders

Non-Israeli residents (whether individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on our ordinary shares or ADSs, at the rate of 25% or 30% (if the dividend recipient is a Substantial Shareholder at the time of distribution or at any time during the preceding 12-month period).

Sapiens received a Tax Ruling according to which dividends paid by Sapiens to non-Israeli (individuals and corporations) will be subject to withholding tax at source at a rate of 25%. We cannot guarantee that the Tax Ruling will be extended beyond December 31, 2024.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel with respect to such income, provided that (i) such income was not generated from business conducted in Israel by the taxpayer, (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed and (iii) the taxpayer is not obliged to pay excess tax (as further explained below).

Excess Tax

Individuals who are subject to tax in Israel (whether any such individual is an Israeli resident or non-Israeli resident) are also subject to an additional tax at a rate of 3% on annual income exceeding NIS 698,280 for 2023 (approximately \$0.2 million, based on an exchange rate of NIS 3.74 per U.S. dollar as of May 1, 2024), which amount is linked to the annual change in the Israeli consumer price index, including, but not limited to, dividends, interest and capital gain.

Estate and gift tax

Israeli law presently does not impose estate or gift taxes.

United States Federal Income Tax Considerations

Subject to the limitations described herein, this discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares or ADSs to a U.S. holder. A U.S. holder is a holder of our ordinary shares or ADSs who is:

- An individual who is a citizen or resident of the U.S. for U.S. federal income tax purposes
- A corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof, or the District of Columbia
- An estate, the income of which may be included in gross income for U.S. federal income tax purposes regardless of its source
- A trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions or (ii) an electing trust that was in existence on August 19, 1996 and was treated as a domestic trust on that date

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (which we refer to as a non-U.S. holder) and considers only U.S. holders that will own our ordinary shares or ADSs as capital assets (generally, for investment).

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended, or the Code, current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with a retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder's particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers, insurance companies, real estate investment trusts, regulated investment companies, grantor trusts, individual retirement and tax-deferred accounts, certain former citizens or long-term residents of the U.S., tax-exempt organizations, financial institutions, "financial service entities" or who own, directly, indirectly or constructively, 10% or more of the vote or value of the our outstanding shares, U.S. holders holding our ordinary shares or ADSs as part of a hedging, straddle or conversion transaction, U.S. holders whose functional currency is not the U.S. dollar, U.S. holders that acquired our ordinary shares or ADSs upon the exercise of employee stock options or otherwise as compensation, and U.S. holders who are persons subject to the alternative minimum tax, who may be subject to special rules not discussed below.

Additionally, the tax treatment of persons who are, or hold our ordinary shares or ADSs through a partnership or other pass-through entity is not considered, nor is the possible application of U.S. federal estate or gift taxes or any aspect of state, local or non-U.S. tax laws.

Furthermore, unless otherwise indicated, this discussion assumes that our company is not, and will not become, a “passive foreign investment company,” or a PFIC, for U.S. federal income tax purposes. See “—Passive Foreign Investment Companies” below.

Prospective investors should be aware that this discussion does not address the tax consequences to investors who are not U.S. holders. Prospective investors should consult their own tax advisors as to the particular tax considerations applicable to them relating to the purchase, ownership and disposition of ordinary shares or ADSs, including the applicability of U.S. federal, state and local tax laws and non-U.S. tax laws.

Taxation of Distributions on our Ordinary Shares or ADSs

Subject to the discussion below under “Tax Consequences if We Are a Passive Foreign Investment Company,” a distribution paid by us with respect to our ordinary shares or ADSs to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes.

Dividends that are received by U.S. holders that are individuals, estates or trusts generally will be taxed at the rate applicable to long-term capital gains, provided those dividends meet the requirements of “qualified dividend income.” The maximum long-term capital gains rate is 20% for individuals with annual taxable income that exceeds certain thresholds. In addition, under the Patient Protection and Affordable Care Act, higher income taxpayers must pay an additional 3.8 percent tax on net investment income to the extent certain threshold amounts of income are exceeded. See “Tax on Net Investment Income” in this Item below. For this purpose, qualified dividend income generally includes dividends paid by a foreign corporation if certain holding period and other requirements are met and either (a) the stock of the foreign corporation with respect to which the dividends are paid is “readily tradable” on an established securities market in the U.S. (e.g., the Nasdaq Global Select Market) or (b) the foreign corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. Dividends that fail to meet such requirements and dividends received by corporate U.S. holders are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (i) if the U.S. holder held the ordinary share or ADS with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made (and not closed) a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share or ADS (or substantially identical securities); or (ii) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share and ADS with respect to which the dividend is paid. If we were to be a “passive foreign investment company” (as such term is defined in the Code), or PFIC, for any taxable year, dividends paid on our ordinary shares or ADSs in such year or in the following taxable year would not be qualified dividends. See the discussion below regarding our PFIC status under “Tax Consequences if We Are a Passive Foreign Investment Company.” In addition, a non-corporate U.S. holder will be able to take qualified dividend income into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend income will be taxed at ordinary income rates.

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder’s tax basis in our ordinary shares or ADSs to the extent thereof, and then as capital gain from the deemed disposition of the ordinary shares or ADSs. Corporate holders will not be allowed a deduction for dividends received in respect of the ordinary shares and ADSs.

Distributions of current or accumulated earnings and profits paid in foreign currency to a U.S. holder will be includible in the income of a U.S. holder in a U.S. dollar amount calculated by reference to the exchange rate on the day the distribution is received. A U.S. holder that receives a foreign currency distribution and converts the foreign currency into U.S. dollars subsequent to receipt may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the U.S. dollar, which will generally be U.S. source ordinary income or loss.

Taxation of the Disposition of the Ordinary Shares or ADSs

Subject to the discussion below under “Tax Consequences if We Are a Passive Foreign Investment Company,” upon the sale, exchange or other disposition of our ordinary shares or ADSs, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder’s tax basis in our ordinary shares or ADSs. The gain or loss recognized on the disposition of the ordinary shares or ADSs will be long-term capital gain or loss if the U.S. holder held the ordinary shares or ADSs for more than one year at the time of the disposition and would be eligible for a reduced rate of taxation for certain non-corporate U.S. holders. The maximum long-term capital gains rate is 20% for individuals with annual taxable income that exceeds certain thresholds. In addition, under the Patient Protection and Affordable Care Act, higher income taxpayers must pay an additional 3.8 percent tax on net investment income to the extent certain threshold amounts of income are exceeded. See “Tax on Net Investment Income” in this Item below. Capital gain from the sale, exchange or other disposition of ordinary shares or ADSs held for one year or less is short-term capital gain and taxed as ordinary income. Gain or loss recognized by a U.S. holder, who does not have a tax home outside the United States, on a sale, exchange or other disposition of our ordinary shares or ADSs generally will be treated as U.S. source income or loss. The deductibility of capital losses is subject to certain limitations.

A U.S. holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss. A U.S. holder that uses the accrual method may avoid realizing foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of its ordinary shares or ADSs and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

Tax Consequences if We Are a Passive Foreign Investment Company

We would be a passive foreign investment company, or PFIC, for a taxable year if either (1) 75% or more of our gross income in the taxable year is passive income; or (2) the average percentage (by value determined on a quarterly basis) in a taxable year of our assets that produce, or are held for the production of, passive income is at least 50%. Passive income for this purpose generally includes, among other things, certain dividends, interest, royalties, rents and gains from commodities and securities transactions and from the sale or exchange of property that gives rise to passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we would be treated for purposes of the foregoing tests as owning our proportionate share of the other corporation’s assets and as directly earning our proportionate share of the other corporation’s income. As discussed below, we believe that we were not a PFIC for 2023.

If we were a PFIC, each U.S. holder would (unless it made one of the elections discussed below on a timely basis) be taxable on gain recognized from the disposition of our ordinary shares or ADSs (including gain deemed recognized if our ordinary shares or ADSs are used as security for a loan) and upon receipt of certain excess distributions (generally, distributions that exceed 125% of the average amount of distributions in respect to such shares received during the preceding three taxable years or, if shorter, during the U.S. holder’s holding period prior to the distribution year) with respect to our ordinary shares or ADSs as if such income had been recognized ratably over the U.S. holder’s holding period for the shares. The U.S. holder’s income for the current taxable year would include (as ordinary income) amounts allocated to the current taxable year and to any taxable year prior to the first day of the first taxable year for which we were a PFIC. Tax would also be computed at the highest ordinary income tax rate in effect for each other taxable year to which income is allocated, and an interest charge on the tax as so computed would also apply. The tax liability with respect to the amount allocated to the taxable year prior to the taxable year of the distribution or disposition cannot be offset by any net operating losses. Additionally, if we were a PFIC, U.S. holders who acquire our ordinary shares or ADSs from decedents (other than nonresident aliens) would be denied the normally-available step-up in basis for such shares to fair market value at the date of death and, instead, would have a tax basis in such shares equal to the lesser of the decedent’s basis or the fair market value of such shares on the decedent’s date of death.

As an alternative to the tax treatment described above, a U.S. holder could elect to treat us as a “qualified electing fund” (a QEF), in which case the U.S. holder would be taxed, for each taxable year that we are a PFIC, on its pro rata share of our ordinary earnings and net capital gain (subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge). Special rules apply if a U.S. holder makes a QEF election after the first taxable year in its holding period in which we are a PFIC. We have agreed to supply U.S. holders with the information needed to report income and gain under a QEF election if we were a PFIC. Amounts includable in income as a result of a QEF election will be determined without regard to our prior year losses or the amount of cash distributions, if any, received from us. A U.S. holder’s basis in its ordinary shares or ADSs will increase by any amount included in income and decrease by any amounts not included in income when distributed because such amounts were previously taxed under the QEF rules. So long as a U.S. holder’s QEF election is in effect with respect to the entire holding period for its ordinary shares or ADSs, any gain or loss realized by such holder on the disposition of its ordinary shares or ADSs held as a capital asset generally will be capital gain or loss. Such capital gain or loss ordinarily would be long-term if such U.S. holder had held such ordinary shares or ADSs for more than one year at the time of the disposition and would be eligible for a reduced rate of taxation for certain non-corporate U.S. holders. The maximum long-term capital gains rate is 20% for individuals with annual taxable income that exceeds certain thresholds. The QEF election is made on a shareholder-by-shareholder basis, applies to all ordinary shares or ADSs held or subsequently acquired by an electing U.S. holder and can be revoked only with the consent of the IRS. The QEF election must be made on or before the U.S. holder’s tax return due date, as extended, for the first taxable year to which the election will apply.

As an alternative to making a QEF election, a U.S. holder of PFIC stock that is “marketable stock” (e.g., “regularly traded” on the Nasdaq Global Select Market) may, in certain circumstances, avoid certain of the tax consequences generally applicable to holders of stock in a PFIC by electing to mark the stock to market as of the beginning of such U.S. holder’s holding period for our ordinary shares or ADSs. Special rules apply if a U.S. holder makes a mark-to-market election after the first year in its holding period in which we are a PFIC. As a result of such an election, in any taxable year that we are a PFIC, a U.S. holder would generally be required to report gain or loss to the extent of the difference between the fair market value of the ordinary shares or ADSs at the end of the taxable year and such U.S. holder’s tax basis in such shares at that time. Any gain under this computation, and any gain on an actual disposition of our ordinary shares or ADSs in a taxable year in which we are PFIC, would be treated as ordinary income. Any loss under this computation, and any loss on an actual disposition of our ordinary shares or ADSs in a taxable year in which we are PFIC, would be treated as ordinary loss to the extent of the cumulative net-mark-to-market gain previously included. Any remaining loss from marking our ordinary shares or ADSs to market will not be allowed, and any remaining loss from an actual disposition of our ordinary shares or ADSs generally would be capital loss. A U.S. holder’s tax basis in its ordinary shares or ADSs is adjusted annually for any gain or loss recognized under the mark-to-market election. There can be no assurances that there will be sufficient trading volume with respect to our ordinary shares or ADSs for the ordinary shares or ADSs to be considered “regularly traded” or that our ordinary shares or ADSs will continue to trade on the Nasdaq Global Select Market. Accordingly, there are no assurances that our ordinary shares or ADSs will be marketable stock for these purposes. As with a QEF election, a mark-to-market election is made on a shareholder-by-shareholder basis, applies to all ordinary shares or ADSs held or subsequently acquired by an electing U.S. holder and can only be revoked with consent of the IRS (except to the extent our ordinary shares or ADSs no longer constitute “marketable stock”).

Based on an analysis of our assets and income, we believe that we were not a PFIC for 2023. We currently expect that we will not be a PFIC in 2024. The tests for determining PFIC status are applied annually and it is difficult to make accurate predictions of future income and assets, which are relevant to this determination. Accordingly, there can be no assurance that we will not become a PFIC in any future taxable years. U.S. holders who hold our ordinary shares or ADSs during a period when we are a PFIC will be subject to the foregoing rules, even if we cease to be a PFIC, subject to certain exceptions for U.S. holders who made QEF, mark-to-market or certain other special elections. U.S. holders are urged to consult their tax advisors about the PFIC rules, including the consequences to them of making a mark-to-market or QEF election with respect to our ordinary shares or ADSs in the event that we qualify as a PFIC.

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making, the QEF election or the mark-to-market election.

Tax on Net Investment Income

A U.S. holder that is an individual or estate, or a trust that does not fall into a special class of trusts that is exempt from the tax, will be subject to a 3.8% tax on the lesser of (1) the U.S. holder's "net investment income" for the relevant taxable year and (2) the excess of the U.S. holder's modified adjusted gross income for the taxable year over a certain threshold (which in the case of individuals will be between \$125,000 and \$250,000, depending on the individual's circumstances). A U.S. holder's net investment income generally will include its dividends on our ordinary shares or ADSs and net gains from dispositions of our ordinary shares or ADSs, unless those dividends or gains are derived in the ordinary course of the conduct of trade or business (other than trade or business that consists of certain passive or trading activities). Net investment income, however, may be reduced by deductions properly allocable to that income. A U.S. holder that is an individual, estate or trust is urged to consult its tax adviser regarding the applicability of the Medicare tax to its income and gains in respect of its investment in the ordinary shares or ADSs.

Non-U.S. Holders of Ordinary Shares or ADSs

Except as provided below, a non-U.S. holder of our ordinary shares or ADSs will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, or the proceeds from the disposition of, our ordinary shares or ADSs, unless, in the case of U.S. federal income taxes, that item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has an income tax treaty with the United States, such item is attributable to a permanent establishment in the United States or, in the case of an individual, a fixed place of business in the United States. In addition, gain recognized on the disposition of our ordinary shares or ADSs by an individual non-U.S. holder will be subject to tax in the United States if the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

Information Reporting and Backup Withholding

A U.S. holder generally is subject to information reporting and may be subject to backup withholding at a rate of up to 28% with respect to dividend payments on, or receipt of the proceeds from the disposition of, our ordinary shares or ADSs. Backup withholding will not apply with respect to payments made to exempt recipients, including corporations and tax-exempt organizations, or if a U.S. holder provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding or otherwise establishes an exemption. Non-U.S. holders are not subject to information reporting or backup withholding with respect to dividend payments on, or receipt of the proceeds from the disposition of, our ordinary shares or ADSs in the U.S., or by a U.S. payor or U.S. middleman, provided that such non-U.S. holder provides a taxpayer identification number, certifies to its foreign status, or otherwise establishes an exemption. Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a holder, or alternatively, the holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, in either case, provided that the required information is furnished to the IRS.

Information Reporting by Certain U.S. Holders

U.S. citizens and individuals taxable as resident aliens of the United States that own "specified foreign financial assets" with an aggregate value in a taxable year in excess of certain threshold (as determined under Treasury regulations) and that are required to file a U.S. federal income tax return generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares or ADSs, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets". Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. A U.S. Holder is urged to consult his tax adviser regarding his reporting obligation.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our Ordinary Shares or ADSs. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are currently subject to the information and periodic reporting requirements of the Exchange Act that are applicable to foreign private issuers. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies, we generally do publicly announce our quarterly and year-end results promptly and file periodic information with the United States Securities and Exchange Commission under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting and other provisions in Section 16 of the Exchange Act. Our SEC filings are filed electronically on the EDGAR reporting system and may be obtained through that medium. The SEC also maintains a web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the SEC. The address of that web site is <http://www.sec.gov>. The Exchange Act file number for our Securities and Exchange Commission filings is 000-29442.

Copies of our SEC filings and submissions are also submitted to the Israel Securities Authority, or ISA, and the TASE. Such copies can be retrieved electronically through the MAGNA distribution site of the ISA (www.magna.isa.gov.il) and the TASE website (maya.tase.co.il).

A copy of each report that we submit in accordance with applicable United States law is available for public review at our principal executive offices, at 1 Yahadut Canada Street, Or Yehuda 6037501, Israel. Information about us is also available on our website at <http://www.formulasystems.com>. Such information is not part of this annual report.

I. Subsidiary Information

Not applicable.

J. Annual Report to Security Holders

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risks relating to our operations result primarily from changes in exchange rates, interest rates or weak economic conditions in the markets in which we sell our products and services. We have been and we are actively monitoring these potential exposures. To manage the volatility relating to these exposures, we may enter into various forward contracts or other hedging instruments. Our objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in foreign currency exchange rates and interest rates.

Interest Rate and Currency Exchange Rate Fluctuations; Impact of Inflation

In light of the nature of our activities, we invest our cash and cash equivalents primarily in short-term and long-term deposits. As of December 31, 2023, substantially all of the cash that we held was invested in dollar, Euro, Indian Rupee, Danish Krone, Swedish Krona, Polish Zloty and British Pound accounts bearing interest based on SOFR, and NIS accounts bearing interest based on the Israeli prime rate. Given the current interest rates in the financial markets, assuming a 10% interest rate decrease, the net decrease in our earnings from our financial assets would not be material, holding other variables constant.

As described above in this annual report (under “Item 3.D Risk Factors—Risks Related to Operations in Israel—Fluctuations in foreign currency values may affect our business and results of operations” and “Item 5. Operating and Financial Review and Prospects—Operating Results— Impact of Inflation and Currency Fluctuations on Results of Operations”), because most of our software services revenues are received in NIS, a devaluation of the NIS against the dollar adversely impacts our dollar-recorded software services revenues and operating profit, by reducing the dollar-recorded revenues for those software services. Accordingly, a devaluation of the dollar against the NIS positively impacts our dollar-recorded software services revenues and operating profit.

At the same time, a significant portion of our revenues from proprietary software products is currently denominated in dollars and other currencies, particularly Euro, Danish Krone, Swedish Krona, Polish Zloty, British pound, Indian rupee and ,to a lesser extent, Japanese yen, while a substantial portion of our expenses relating to the proprietary software products, principally salaries and related personnel expenses, is denominated in NIS. As a result, the devaluation of the dollar relative to the NIS increases our operating costs (as denominated in dollars), and, therefore, adversely affects the operational profitability of our proprietary software product reporting segment. An increase in the rate of Israeli inflation compounds this negative impact by further increasing our NIS (and ultimately dollar-recorded) operating expenses, and, consequently, reducing our operational profitability in that business line. Also, the devaluation of these other currencies—particularly Euro, British pound and to a lesser extent Japanese yen—relative to the U.S. dollar reduces our dollar recorded revenues from sales of our proprietary software products and thereby harms our results of operations.

The net effect of these risks stemming from currency exchange rate fluctuations on our operating results can be quantified as follows:

A hypothetical 10% devaluation or appreciation of foreign currencies (primarily the NIS, GBP, Euro, Japanese yen, PLN and INR) against the US dollar, with all other variables held constant on the expected sales, would have resulted in a decrease or increase in 2023 sales revenues of approximately \$177 million or \$209 million, respectively.

Depending upon the circumstances, we will consider entering into currency hedging transactions to decrease the risk of financial exposure from fluctuations in the exchange rate of the dollar, Euro, Japanese yen and/or British Pound against the NIS, or the Euro, Japanese yen and/or British pound against the dollar. There can be no assurance that these activities, or others that we may use from time to time, will eliminate the negative financial impact of currency fluctuations and inflation. We do not—nor do we intend to in the future—engage in currency speculation.

Inflation Risk. We and some of our subsidiaries are subject to inflation risk. Given that over recent years we have expanded our global presence and offer our software solutions and services to new markets, particularly in the United States, the U.K. and Europe, inflationary pressures have been adversely impacting our operations. The increased inflation in Europe and the U.S. have been leading to an increase in certain of our operating costs and expenses, such as employee compensation and office operating expenses. In addition, the purchasing power of our customers have been declining due to their rising other expenses, and customer demand for our software solutions and services may be adversely impacted as a result, which could in turn negatively affect our results of operations, financial condition and prospects.

Market Risk. We currently do not invest in, or otherwise hold, for trading or other purposes, any financial instruments subject to market risk.

Interest Rate Risk. We and four of our subsidiaries (Sapiens, Matrix, Magic Software and Zap Group) account for the majority of the Group’s bank credits, loans and debentures, which are subject to interest rate risk. Sapiens, Matrix and Formula pay interest on their debentures based on a fixed interest rate which is denominated in NIS (and in the case of Sapiens is also linked to a fixed US dollar interest rate). Because both Formula and Sapiens do not have any outstanding debt obligations other than with respect to their debentures, they have not been materially impacted by the global rise in interest rates that began in 2022. Therefore, no quantitative tabular disclosures are required. Additionally, as Matrix is impacted by interest rate risk with respect to its bank credits and loan, in an effort to hedge the risk, Matrix conducted two series B bond issuances at a fixed interest rate of 4.1%. As a result, Matrix has not been materially impacted by the global rise in interest rates that began in 2022. An increase of 1% in interest rates would have increased Matrix financial expenses by approximately \$0.6 million.

Fluctuations in Market Price of Securities We Hold

We hold the securities of three subsidiaries— Magic Software, Sapiens and Matrix,— which are companies whose securities are listed for trading on the Nasdaq Global Market, Nasdaq Global Select Market and/or the TASE. We consider these holdings as long-term holdings. We are exposed to the risk of fluctuation of the price of these companies' securities. All of these publicly traded companies have experienced significant historical volatility in their stock prices. Fluctuations in the market price of our holdings in these companies may result in the fluctuation of the value of our assets. We typically do not attempt to reduce or eliminate our market exposure on these securities.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Fees and charges payable by our ADS holders

The Bank of New York Mellon, which we refer to as the Depositary, serves as the depositary for our ADS program. Pursuant to the deposit agreement by and among our company, the Depositary and owners and holders of our ADSs, which we refer to as the Deposit Agreement, ADS holders may be required to pay various fees to the Depositary. In particular, the Depositary may charge the following fees to any party depositing or withdrawing ADSs, or to any party surrendering American Depositary Receipts (which we refer to as ADRs) that represent the ADSs, or to whom ADRs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by us or an exchange of stock involving the ADRs or any deposited ADSs underlying the ADRs or a distribution of ADRs pursuant to a distribution of underlying shares), as applicable:

- taxes and governmental charges;
- such registration fees as may from time to time be in effect for the registration of transfers of shares generally on our share register and applicable to transfers of shares to the name of the Depositary or its nominee or agent in connection with making deposits or withdrawals under the Deposit Agreement;
- such cable, telex and facsimile transmission expenses as are expressly provided for in the Deposit Agreement;
- such expenses as are incurred by the Depositary in the conversion of foreign currency;
- a fee of \$5.00 or less per 100 ADSs (or portion thereof) for the execution and delivery of ADRs (including in connection with distributions of shares or rights by us) and in connection with the surrender of receipts and withdrawal of the underlying shares;
- a fee of \$0.02 or less per ADS (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement, including in connection with distributions of shares or rights;
- a fee for the distribution of securities in connection with certain distributions, such fee being in an amount equal to the fee for the execution and delivery of ADSs which would have been charged as a result of the deposit of such securities but which securities are instead distributed by the Depositary to ADR holders; and
- any other charges payable by the Depositary or any of its agents in connection with the servicing of ADSs or other deposited securities underlying the ADRs.

Amounts received from the Depositary

We do not receive any fees directly or indirectly from the Depositary.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, including our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2023. Based on such evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that, as of December 31, 2023, the Company's disclosure controls and procedures are effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our management, including our Chief Executive Officer and our Chief Financial Officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework and criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of the end of the period covered by this report.

Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2023. Notwithstanding the foregoing, there can be no assurance that our internal control over financial reporting will detect or uncover all failures of persons within the Company to comply with our internal procedures, as all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective may not prevent or detect misstatements.

Our management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business of K.M.T. (M.H.) Technologies Communication Computer Ltd. which was acquired during 2023 and included in our consolidated 2023 annual financial statements and constituted 0.2% of total assets and 0.4% of the net assets as of December 31, 2023, and 0.1% and 0.6% of revenues and net income, respectively, for the year then ended.

Attestation Report of the Registered Public Accounting Firm

The attestation report of Kost Forer Gabbay & Kasierer, a member of EY Global, an independent registered public accounting firm in Israel, on our management's assessment of our internal control over financial reporting as of December 31, 2023 is provided on page F-4, as included under Item 18 of this annual report.

Changes in Internal Control over Financial Reporting

Based on the evaluation conducted by our Chief Executive Officer and our Chief Financial Officer pursuant to Rules 13a-15(d) and 15d-15(d) under the Exchange Act, our management has concluded that there was no change in our internal control over financial reporting that occurred during the year ended December 31, 2023 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Tomer Jacob, who serves on the audit committee of our board of directors, qualifies as our “audit committee financial expert,” as defined under the rules and regulations of the SEC.

ITEM 16B. CODE OF ETHICS

We have adopted a code of business conduct and ethics, or code of ethics, applicable to Formula’s Chief Executive Officer and Chief Financial Officer (who also serves as its principal accounting officer) and any person performing similar functions, as well as to its directors and other employees. A copy of the code of ethics is available to all of Formula’s employees, investors and others without charge, upon request to the following address: Formula Systems (1985) Ltd., 1 Yahadut Canada St., Or Yehuda 6037501, Israel, Attn: Chief Executive Officer.

The chairman of our audit committee may approve a request by our Chief Executive Officer, Chief Financial Officer (who also serves as our principal accounting officer) or any person performing similar functions for a waiver from the requirements of our code of ethics pertaining to (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationship; (ii) full, fair, accurate, timely and understandable disclosure in reports and documents that we must file with, or submit to, the SEC and in other public communications made by us; (iii) compliance with applicable governmental laws, rules and regulations; (iv) the prompt internal reporting of violation of the code of ethics to the chairman of our audit committee; and (v) accountability for adherence to the code of ethics; provided in each case that the person requesting such waiver provides to our audit committee a full disclosure of the particular circumstances relating to such request. The chairman of our audit committee will first determine whether a waiver of the relevant requirements of the code of ethics is required and, if such waiver is required, whether a waiver will be granted. The person requesting such waiver may be required to agree to certain conditions before a waiver or a continuing waiver is granted.

Any amendments to the code of ethics and all waivers from compliance with the code of ethics granted to our Chief Executive Officer, Chief Financial Officer (who also serves as our principal accounting officer) or any person performing similar functions with respect to its requirements described in the above paragraph will be publicly disclosed by us via a report on Form 6-K in accordance with the regulations of the SEC. No such amendment was adopted, nor waiver provided, by us during the fiscal year ended December 31, 2023.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Principal Accountant Fees and Services

Formula and its subsidiaries and affiliate company paid the following fees for professional services rendered by Kost Forer Gabbay & Kasierer, Certified Public Accountant, a member firm of Ernst & Young Global, independent registered public accounting firm (which we refer to as Kost Forer), to the Company for the years ended December 31, 2022 and December 31, 2023, respectively:

	Year Ended December 31,	
	2022	2023
	(US dollars in thousands)	
Services Rendered		
Audit ⁽¹⁾	\$ 2,380	\$ 2,556
Tax and other ⁽²⁾	\$ 852	\$ 494
Total	\$ 3,232	\$ 3,050

(1) The audit fees for the years ended December 31, 2022 and 2023 were for professional services rendered for: the audits of our annual consolidated financial statements; agreed-upon procedures related to the review of our consolidated quarterly information; statutory audits of Formula and its subsidiaries and affiliated companies; issuance of comfort letters and consents; and assistance with review of documents filed with the SEC.

(2) Tax fees for the years ended December 31, 2022 and 2023 were for services related to tax compliance, including the preparation of tax returns and claims for refund, and tax advice.

Formula paid the following fees for professional services rendered by Kost Forer to the Company (on a stand-alone basis, excluding services provided to the subsidiaries and affiliates of the Company) for the years ended December 31, 2022 and December 31, 2023, respectively:

Services Rendered	Year Ended	
	December 31,	
	2022	2023
	(US dollars in thousands)	
Audit ⁽¹⁾	\$ 130	\$ 114
Tax and other ⁽²⁾	\$ 92	\$ 7
Total	\$ 222	\$ 121

- (1) The audit fees for the years ended December 31, 2022 and 2023 were for professional services rendered for: the audits of our annual consolidated financial statements; agreed-upon procedures related to the review of our consolidated quarterly information; statutory audits of Formula and its subsidiaries and affiliated companies; issuance of comfort letters and consents; and assistance with review of documents filed with the SEC.
- (2) Tax fees for the years ended December 31, 2022, and 2023 were for services related to tax compliance, including the preparation of tax returns and claims for refund, and tax advice.

Policy on Pre-Approval of Audit and Non-Audit Services of Independent Auditors

Our audit committee is responsible for the oversight of our (and our subsidiaries’) independent auditor’s work. Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accountants, Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee’s approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services that exceed general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent public accountants to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act of 2002 or the rules of the SEC, and also requires the audit committee to consider whether proposed services are compatible with the independence of the public accountants.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

None.

ITEM 16F. CHANGE IN REGISTRANT’S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

The Nasdaq Global Select Market requires companies with securities listed thereon to comply with its corporate governance standards. As a foreign private issuer, we are not required to comply with all of the rules that apply to listed domestic U.S. companies. Pursuant to Nasdaq listing rule 5615(a)(3), we have notified Nasdaq that with respect to the corporate governance practices described below, we instead follow Israeli law and practice and accordingly do not follow the Nasdaq listing rules. Except for the differences described below, we do not believe there are any significant differences between our corporate governance practices and those that apply to a U.S. domestic issuer under the Nasdaq corporate governance rules.

- **Majority Board Independence:** Under Israeli law, there is no requirement that the majority of the members of the board of directors be independent as under Nasdaq listing rule 5605(b)(1), so long as a company appoints at least two external directors pursuant to the Companies Law and fulfills the composition requirements for the audit and compensation committees of the board. We comply with Israeli law in lieu of that Nasdaq requirement.

- **Independent Director Oversight of Nominations:** Under Israeli law, there is no requirement to have an independent nominating committee or the independent directors of a company select (or recommend for selection) director nominees, as is required under Nasdaq listing rule 5605 (e) for a U.S. domestic issuer. Our board of directors handles this process, as is permitted by our articles and the Companies Law. We also need not adopt a formal board resolution or charter addressing the director nominations process and such related matters as may be required under the U.S. federal securities laws, as Nasdaq requires for a U.S. issuer.
- **Shareholder Approval:** Pursuant to Israeli law, we seek shareholder approval for all corporate actions requiring such approval under the requirements of the Companies Law, which are different from, or in addition to, the requirements for seeking shareholder approval under Nasdaq listing rule 5635. See “Item 10. Additional Information— Memorandum and Articles of Association— Approval of Certain Transactions Under the Companies Law” in this annual report for a description of the transactions requiring shareholder approval under the Companies Law.
- **Quorums for Shareholders Meetings.** The quorum for a shareholders meeting, as stipulated in our articles, complies with the provisions of Israeli law, and requires the presence, in person or by proxy of holders of 25% of our outstanding ordinary shares, in lieu of the requirement specified in Nasdaq listing rule 5620(c) under which the quorum for any shareholders meeting shall not be less than 33 and 1/3% of the outstanding voting shares of a listed company.
- **Required Timing for Annual Shareholders Meetings.** Under the Companies Law, we are required to hold an annual shareholders meeting each calendar year and within 15 months of the last annual shareholders meeting, which differs from the corresponding requirement under Nasdaq listing rule 5620(a), which mandates that a listed company hold its annual shareholders meeting within one year of the company’s fiscal year-end.

ITEM 16H. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS.

Not applicable.

ITEM 16J. INSIDER TRADING POLICIES

Disclosure under this item is not yet required in this annual report.

ITEM 16K. CYBER-SECURITY

Risk management and strategy

We (through our subsidiaries) maintain corporate cyber-security risk assessment programs that are designed to identify and manage material risks from cyber-security threats. These programs are integrated into our overall risk management systems, thereby ensuring that we address cyber-security risks in a comprehensive manner.

In implementing the processes of our cyber-security risk assessment program, we have internal cyber-security teams and we also engage outside assessors, consultants, auditors and other third parties to help us in identifying and managing our cybersecurity risks. The degree to which our internal cyber-security teams, as opposed to an external party, handle the implementation of a given cyber-security project depends on the specific needs of the project. We, through our subsidiaries, have processes in place to oversee and identify risks related to our outsourcing of certain portions of our cyber-security risks management. Those processes are designed to ensure that we utilize reliable and secure third-party vendors.

We regularly assess whether any risks from cyber-security threats are reasonably likely to materially affect our Group companies, and our or their business strategy, results of operations or financial condition. If any such risks are identified, we take appropriate measures to mitigate them. As with virtually every other public company, we believe that a potential material cybersecurity incident could potentially adversely affect our business operations in a material manner, due to the reliance that we place on our information technology (IT) systems for, among other things: effectively managing our accounting and financial functions, including maintaining our internal controls; managing our sales and marketing processes for our solutions and services; and maintaining our proprietary rights (such as research and development, and other intellectual property- related data). The failure of our IT systems to perform properly could disrupt our ability to develop, market and sell our solutions and services, which may result in decreased sales, increased overhead costs, and failure of our solutions to properly function, causing our business, our reputation, and our operating results to suffer. Please see “Item 3.D. Risk Factors—Risks Relating to Our Business, Our Industry, and Our Financing Activities— Significant disruptions of our information technology systems or breaches of our data security could adversely affect our business”.

Governance

As part of our (through our subsidiaries) corporate cybersecurity risk assessment program, we prioritize the identification and management of cybersecurity risk at several levels, including board oversight and involvement of each company’s management on an ongoing basis.

Our board of directors as a whole is responsible for the oversight of risks from cybersecurity threats to our subsidiaries’ operations. The Formula board of directors meets annually with our Chief Financial Officer, or CFO, who updates the board regarding the latest developments with respect to our subsidiaries’ cybersecurity risk assessment programs, the results of the latest risk assessments, and any material risks from cybersecurity threats that have been identified. The board also receives regular, ongoing updates on the prevention, detection, mitigation and remediation of cybersecurity incidents, including details concerning any incidents that have occurred for our subsidiaries, our subsidiaries’ response to such incidents, and any lessons learned as a result (including any recommendations for improvement in our subsidiaries’ response).

Our management, led by our CFO, is primarily responsible for assessing and managing material risks from cybersecurity threats to our subsidiaries. Our CFO directly manages our cybersecurity risk assessment program. Our CFO has general knowledge of Information Systems and Technology. In handling his role, our CFO obtains information from our subsidiaries’ teams of cybersecurity professionals, which include individuals with prior work experience, degrees, certification, knowledge, skills and background in cybersecurity, including with respect to cybersecurity risk management, cybersecurity engineering and cybersecurity operations. Those cybersecurity teams are responsible for monitoring the prevention, detection, mitigation and remediation of cybersecurity incidents. That includes monitoring our subsidiaries’ IT network and systems for signs of cyber-attacks, responding to any cybersecurity incidents that occur, and implementing measures to prevent future incidents. The cybersecurity teams report information about cybersecurity risks to our CFO on a regular basis. That includes information about any material risks from cybersecurity threats that have been identified, the response of the relevant company within our Group to those risks, and any recommendations for improvement.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have elected to provide financial statements and related information pursuant to Item 18.

ITEM 18. FINANCIAL STATEMENTS

Our consolidated financial statements and the report of our independent registered public accounting firm in connection therewith are filed as part of this annual report, as noted on the pages below:

Reports of Independent Registered Public Accounting Firm (PCAOB ID 1281)	F-2 – F-5
Consolidated Statements of Financial Position	F-6 – F-7
Consolidated Statements of Profit or Loss	F-8
Consolidated Statements of Comprehensive Income	F-9
Consolidated Statements of Changes in Equity	F-10 – F-13
Consolidated Statements of Cash Flows	F-14 – F-17
Notes to Consolidated Financial Statements	F-18 – F-101

ITEM 19. EXHIBITS

EXHIBIT INDEX

<u>Exhibit No.</u>	
1.1	Memorandum of Association ⁽¹⁾
1.2	Amended and Restated Articles of Association, as adopted by Formula Systems (1985) Ltd. on January 8, 2012 ⁽²⁾
2.1	Depository Agreement by and among Formula Systems (1985) Ltd., Bank of New York Mellon and the holders of the American Depository Shares of Formula Systems (1985) Ltd. ⁽¹⁾
2.2	Description of Ordinary Shares of Formula Systems (1985) Ltd.*
4.1	Form of Letter of Indemnification for officers and directors, adopted by Formula Systems (1985) Ltd. on January 8, 2012 ⁽⁴⁾
4.2	English translation of Formula Systems (1985) Ltd. Employees and Office Holders Share Option Plan (2008) ⁽⁵⁾
4.3	Formula Systems (1985) Ltd. 2011 Share Incentive Plan, as amended ⁽⁶⁾
4.4	Formula Systems (1985) Ltd. Compensation Policy for Office Holders ⁽⁷⁾
8.1	List of Subsidiaries*
12.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act*
12.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act*
13.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
13.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
97.1	Clawback Policy*
101.INS	Inline XBRL Instance Document
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Filed herewith.

- (1) Incorporated by reference to the Registration Statement on Form F-1 (File No. 333-8858).
- (2) Incorporated by reference to Exhibit 99.1 to the report on Form 6-K filed by the registrant with the Securities and Exchange Commission on January 18, 2012.
- (3) Incorporated by reference to Exhibit 2.2 to the annual report on Form 20-F for the year ended December 31, 2019, filed by the registrant with the Securities and Exchange Commission on June 29, 2020.
- (4) Incorporated by reference to Exhibit 99.2 to the report of foreign private issuer on Form 6-K filed by the registrant with the Securities and Exchange Commission on January 18, 2012.
- (5) Incorporated by reference to Exhibit 4.3 to the annual report on Form 20-F for the 2008 fiscal year filed by the registrant with the Securities and Exchange Commission on April 27, 2009.
- (6) Incorporated by reference to Exhibit 4.3 to the annual report on Form 20-F for the 2013 fiscal year filed by the registrant with the Securities and Exchange Commission on April 30, 2014.
- (7) Incorporated by reference to Appendix A to the registrant's proxy statement for its special general meeting of shareholders held on January 12, 2023, attached as Exhibit 99.2 to the report of foreign private issuer on Form 6-K furnished by the registrant to the Securities and Exchange Commission on December 8, 2022.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

FORMULA SYSTEMS (1985) LTD.

By: /s/ Guy Bernstein
Guy Bernstein
Chief Executive Officer

May 15, 2024
Date

FORMULA SYSTEMS (1985) LTD.
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2023
U.S. DOLLARS IN THOUSANDS
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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Formula Systems (1985) Ltd.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Formula Systems (1985) Ltd. (the Company) as of December 31, 2023 and 2022, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, based on our audits and the report of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2023 and 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We did not audit the financial statements of Magic Software Japan K.K., a wholly-owned subsidiary of Magic Software Enterprises Ltd., which reflect total assets of constituting 0.1% and 0.2% at December 31, 2023 and 2022, respectively, and total revenues constituting 0.4%, 0.4% and 0.5% for the years ended December 31, 2023, 2022 and 2021, respectively, of the related consolidated totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Magic Software Japan K.K., is based solely on the report of the other auditors.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 15, 2024 expressed an unqualified opinion thereon, based on our audit and the report of other auditors.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.



Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Effective control

Description of the Matter

As described in Notes 2(3) to the consolidated financial statements, the Company consolidates various investees despite the lack of absolute majority of voting power at the general meetings of the investees. In a situation where the Company holds less than a majority of voting power in a given entity, but that power is sufficient to enable the Company to unilaterally direct the relevant activities of such entity, then the control is exercised, and the Company consolidates the entities based on effective control. As disclosed by management, the assessment of whether the Company has effective control over an investee involves management's judgment and analysis and considers factors such as the responsibility of the various organs, the composition of the board of directors, the shareholders structure and their level of activity, the attendance of the shareholders at the general meetings and the voting patterns.

Auditing the Company's assessment of effective control was complex and highly judgmental due to the significant judgment of management in determining whether the Company is able to unilaterally direct the relevant activities of the entity and therefor controls the entity. This in turn led to a high degree of auditor judgment, subjectivity and effort in performing procedures relating to management's application of consolidation accounting, and significant auditor judgment in evaluating the audit evidence obtained relating to the responsibility of the various organs, the composition of the board of directors, the shareholders structure and their level of activity, the attendance of the shareholders at the general meetings and the voting patterns.

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design and tested the effectiveness of controls over effective control, including controls addressing the completeness of the Company's investees evaluated for consolidation, as well as controls over the judgments and factors used to reach consolidation conclusions regarding these investees.

Our audit procedures to evaluate the significant judgments made by management to assess effective control included, among others, testing the completeness of the investees subject to the analysis, evaluating the responsibility of the various organs, the composition of the board of directors, the shareholders structure and their level of activity, the attendance of the shareholders at the general meetings and the voting patterns, evaluating management's assessment of the Company's ability to unilaterally direct the relevant activities of each entity, and the existence of effective control over each investee.

We also evaluated the appropriateness of the related disclosures included in Note 2(3) to the consolidated financial statements in relation to Effective control.

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of EY Global

We have served as the Company's auditor since 2010.

Tel-Aviv, Israel
May 15, 2024



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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Formula Systems (1985) Ltd.

Opinion on Internal Control over Financial Reporting

We have audited Formula Systems (1985) Ltd.'s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Formula Systems (1985) Ltd. (the Company), based on our audit and the report of other auditors, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We did not examine the effectiveness of internal control over financial reporting of Magic Software Japan K.K., a wholly owned subsidiary of Magic Software Enterprises Ltd., whose financial statements reflect total assets and revenues constituting 0.1% and 0.4%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2023. The effectiveness of Magic Software Japan K.K.'s internal control over financial reporting was audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the effectiveness of Magic Software Japan K.K.'s internal control over financial reporting, is based solely on the report of the other auditors.

As indicated in the accompanying Management's Annual Report on Internal Control over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business K.M.T. (M.H.) Technologies Communication Computer Ltd., which is included in the 2023 consolidated financial statements of the Company and constituted 0.2% and 0.4% of total and net assets, respectively, as of December 31, 2023 and 0.1% and 0.6% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the business of K.M.T. (M.H.) Technologies Communication Computer Ltd..

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated statements of financial position of the Company as of December 31, 2023 and 2022, the related consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2023, and the related notes and our report dated May 15, 2024, expressed an unqualified opinion thereon, based on our audit and the report of the other auditors.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.



Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit and the report of other auditors provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting 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.

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of EY Global

Tel-Aviv, Israel
May 15, 2024

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands

	Note	December 31,	
		2023	2022
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	4	\$ 451,946	\$ 544,342
Short-term deposits	2(8),8	76,224	23,976
Short-term investments		-	738
Trade receivables (net of allowances for credit losses of \$14,251 and \$12,242 as of December 31, 2023 and 2022, respectively)	5a	721,008	702,727
Prepaid expenses and other accounts receivable	6	84,670	64,535
Inventories		42,008	35,181
Total current assets		\$ 1,375,856	\$ 1,371,499
NON-CURRENT ASSETS:			
Long-term investments and receivables	7,8	\$ 52,002	\$ 38,985
Investments in companies accounted for at equity	9	20,796	20,746
Property, plant and equipment, net	10	52,931	54,971
Right-of-use assets	18	120,651	116,840
Deferred taxes	23f	46,856	42,027
Intangible assets, net	11	206,928	222,726
Goodwill	12	936,581	926,161
Total non-current assets		1,436,745	1,422,456
Total assets		\$ 2,812,601	\$ 2,793,955

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

U.S. dollars in thousands (except share and per share data)

	Note	December 31,	
		2023	2022
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	13,15	\$ 145,973	\$ 157,882
Debentures	16	72,885	68,293
Current maturities of lease liabilities	18	44,064	45,497
Trade payables		258,649	222,482
Deferred revenues		137,643	131,639
Employees and payroll accrual		209,384	201,225
Other accounts payable	14	73,124	86,340
Liabilities in respect of business combinations	3,8	7,954	27,129
Put options of non-controlling interests	2(16)(E)	35,987	60,500
Total current liabilities		\$ 985,663	\$ 1,000,987
LONG-TERM LIABILITIES:			
Loans from banks and others	15	\$ 90,887	\$ 115,874
Debentures	16	231,541	305,632
Lease liabilities	18	84,639	78,966
Other long-term liabilities		12,678	14,101
Deferred taxes	23f	59,206	59,465
Deferred revenues		4,873	8,859
Liability in respect of business combinations	3,8	2,622	12,345
Put options of non-controlling interests	2(16)(E)	21,880	11,688
Employee benefit liabilities	20	10,427	9,116
Total long-term liabilities		\$ 518,753	\$ 616,046
COMMITMENTS AND CONTINGENCIES	21		
EQUITY	22		
Formula Systems (1985) Ltd. Shareholders' equity:			
Share capital:			
Ordinary shares of NIS 1 par value -			
Authorized:			
25,000,000 shares as of December 31, 2023 and 2022; Issued: 15,901,287 and 15,886,287 at			
December 31, 2023 and 2022, respectively; Outstanding: 15,332,667 and 15,317,667 at			
December 31, 2023 and 2022, respectively			
		\$ 4,351	\$ 4,347
Additional paid-in capital		157,482	145,369
Retained earnings		475,219	419,448
Accumulated other comprehensive income		(11,031)	(17,030)
Treasury shares (568,620 shares as of December 31, 2023 and 2022)		(259)	(259)
Total equity attributable to Formula Systems shareholders		\$ 625,762	\$ 551,875
Non-controlling interests	24a	682,423	625,047
Total equity		\$ 1,308,185	\$ 1,176,922
Total liabilities and equity		\$ 2,812,601	\$ 2,793,955

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

U.S. dollars in thousands (except share and per share data)

	Note	Year ended December 31,		
		2023	2022	2021
Revenues:				
Proprietary software products and related services		\$ 693,426	\$ 659,470	\$ 632,986
Software services and other		1,927,477	1,912,887	1,771,390
Total revenues	2(10),24b	\$ 2,620,903	\$ 2,572,357	\$ 2,404,376
Cost of revenues:				
Proprietary software products and related services		365,563	344,374	350,788
Software services and other		1,611,629	1,605,518	1,489,729
Total cost of revenues		1,977,192	1,949,892	1,840,517
Gross profit		643,711	622,465	563,859
Research and development expenses, net		77,968	72,129	65,858
Selling, marketing, general and administrative expenses	24c	326,375	317,956	289,985
Capital gain from realization of a Matrix IT's subsidiary		-	44,260	-
Operating income		239,368	276,640	208,016
Financial expenses	24d	42,134	27,216	29,994
Financial income	24d	13,800	7,286	5,989
Pre-tax income before share of profits of companies accounted for at equity, net		211,034	256,710	184,011
Share of profits (loss) of companies accounted for at equity, net	9	773	(1,808)	505
Taxes on income	23h	46,075	55,235	42,614
Net income		\$ 165,732	\$ 199,667	\$ 141,902
Attributable to:				
Equity holders of the Company		64,014	81,393	54,585
Non-controlling interests		101,718	118,274	87,317
		\$ 165,732	\$ 199,667	\$ 141,902
Net earnings per share attributable to equity holders of the Company	24f			
Basic earnings per share		\$ 4.19	\$ 5.31	\$ 3.57
Diluted earnings per share		\$ 4.12	\$ 5.21	\$ 3.50

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands

	Year ended December 31,		
	2023	2022	2021
Net income	\$ 165,732	\$ 199,667	\$ 141,902
Other comprehensive income (loss) net of tax effect:			
<u>Amounts that will not be reclassified subsequently to profit or loss:</u>			
Actuarial gain (loss) from defined benefit plans	1,993	2,717	3,007
Gain (loss) from investments in equity instruments measured at fair value through other comprehensive income	9,996	(5,257)	-
Share of net other comprehensive income (loss) of companies accounted for at equity	(575)	(3,053)	128
Adjustments arising from translating financial statements from functional currency to presentation currency	(30,526)	(140,079)	10,343
<u>Amounts that will be or that have been reclassified to profit or loss when specific conditions are met:</u>			
Foreign exchange differences on translation of foreign operations	26,209	67,508	(10,580)
Total other comprehensive income (loss), net of tax	7,097	(78,164)	2,898
Total Comprehensive income	<u>\$ 172,829</u>	<u>\$ 121,503</u>	<u>\$ 144,800</u>
Total comprehensive income attributable to:			
Equity holders of the Company	71,375	40,177	56,048
Non-controlling interests	<u>101,454</u>	<u>81,326</u>	<u>88,752</u>
	<u>\$ 172,829</u>	<u>\$ 121,503</u>	<u>\$ 144,800</u>

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Share Capital		Additional paid-in capital	Retained earnings	Accumulated Other comprehensive income (loss)	Treasury shares (cost)	Non- controlling interests	Total Equity
	Number	Amount						
Balance as of January 1, 2023	15,317,667	\$ 4,347	\$ 145,369	\$ 419,448	\$ (17,030)	\$ (259)	\$ 625,047	\$ 1,176,922
Net income	-	-	-	64,014	-	-	101,718	165,732
Foreign currency translation	-	-	-	-	(3,422)	-	(895)	(4,317)
Actuarial gain from defined benefit plans	-	-	-	1,362	-	-	631	1,993
Share of other comprehensive income (loss) of companies accounted for at equity	-	-	-	-	(575)	-	-	(575)
Gain from investments in equity instruments measured at fair value through other comprehensive income (Note 8)	-	-	-	-	9,996	-	-	9,996
Total other comprehensive income (loss)	-	-	-	1,362	5,999	-	(264)	7,097
Total comprehensive income (loss)	-	-	-	65,376	5,999	-	101,454	172,829
Issuance of restricted shares to employees	15,000	4	(4)	-	-	-	-	-
Cost of share-based payment (Note 19)	-	-	7,269	-	-	-	11,415	18,684
Dividend to Formula's shareholders	-	-	-	(9,605)	-	-	-	(9,605)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(62,487)	(62,487)
Transactions with non-controlling interests due to holding changes, including exercise of employees' stock options	-	-	5,803	-	-	-	643	6,446
Acquisition of non-controlling interests	-	-	(923)	-	-	-	(4,404)	(5,327)
Settlement and expiration of put options over non-controlling interests	-	-	(32)	-	-	-	(1,029)	(1,061)
Non-controlling interests arising from initially consolidated companies	-	-	-	-	-	-	11,784	11,784
Balance as of December 31, 2023	15,332,667	\$ 4,351	\$ 157,482	\$ 475,219	\$ (11,031)	\$ (259)	\$ 682,423	\$ 1,308,185

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Share Capital		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury shares (cost)	Non- controlling interests	Total Equity
	Number	Amount						
Balance as of January 1, 2022	15,294,267	\$ 4,340	\$ 153,048	\$ 358,315	\$ 25,516	\$ (259)	\$ 638,827	\$ 1,179,787
Net income	-	-	-	81,393	-	-	118,274	199,667
Foreign currency translation	-	-	-	-	(34,236)	-	(38,335)	(72,571)
Actuarial gain from defined benefit plans	-	-	-	1,330	-	-	1,387	2,717
Share of other comprehensive income (loss) of companies accounted for at equity	-	-	-	-	(3,053)	-	-	(3,053)
Loss from investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	(5,257)	-	-	(5,257)
Total other comprehensive income (loss)	-	-	-	1,330	(42,546)	-	(36,948)	(78,164)
Total comprehensive income (loss)	-	-	-	82,723	(42,546)	-	81,326	121,503
Issuance of restricted shares to employees	23,400	7	(7)	-	-	-	-	-
Cost of share-based payment (Note 19)	-	-	8,161	-	-	-	6,729	14,890
Dividend to Formula's shareholders	-	-	-	(21,590)	-	-	-	(21,590)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(96,630)	(96,630)
Transactions with non-controlling interests due to holding changes, including exercise of employees' stock options	-	-	(766)	-	-	-	744	(22)
Acquisition of non-controlling interests	-	-	(8,673)	-	-	-	(8,919)	(17,592)
Settlement of put options over non-controlling interests	-	-	(6,394)	-	-	-	(438)	(6,832)
Non-controlling interests arising from initially consolidated companies	-	-	-	-	-	-	4,219	4,219
Deconsolidation of a Matrix IT's subsidiary	-	-	-	-	-	-	(811)	(811)
Balance as of December 31, 2022	15,317,667	\$ 4,347	\$ 145,369	\$ 419,448	\$ (17,030)	\$ (259)	\$ 625,047	\$ 1,176,922

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

	Share Capital		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury shares (cost)	Non- controlling interests	Total Equity
	Number	Amount						
Balance as of January 1, 2021	15,294,267	\$ 4,340	\$ 149,249	\$ 324,358	\$ 25,513	\$ (259)	\$ 605,342	\$ 1,108,543
Net income	-	-	-	54,585	-	-	87,317	141,902
Foreign currency translation	-	-	-	-	(125)	-	(112)	(237)
Actuarial gain from defined benefit plans	-	-	-	1,460	-	-	1,547	3,007
Share of other comprehensive income (loss) of companies accounted for at equity	-	-	-	-	128	-	-	128
Total other comprehensive income (loss)	-	-	-	1,460	3	-	1,435	2,898
Total comprehensive income (loss)	-	-	-	56,045	3	-	88,752	144,800
Cost of share-based payment (Note 19)	-	-	7,434	-	-	-	7,405	14,839
Dividend to Formula's shareholders	-	-	-	(22,088)	-	-	-	(22,088)
Dividend to non-controlling interests in subsidiaries	-	-	-	-	-	-	(62,662)	(62,662)
Transactions with non-controlling interests due to holding changes, including exercise of employees' stock options	-	-	(540)	-	-	-	3,211	2,671
Acquisition of non-controlling interests	-	-	1,005	-	-	-	(2,705)	(1,700)
Settlement of put options over non-controlling interests	-	-	(4,100)	-	-	-	(4,532)	(8,632)
Non-controlling interests arising from initially consolidated companies	-	-	-	-	-	-	4,016	4,016
Balance as of December 31, 2021	15,294,267	\$ 4,340	\$ 153,048	\$ 358,315	\$ 25,516	\$ (259)	\$ 638,827	\$ 1,179,787

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

U.S. dollars in thousands (except share and per share data)

Accumulated other comprehensive income (loss):

	Year ended December 31,		
	2023	2022	2021
Foreign currency translation reserve arising from translating financial statements of foreign operations	\$ (99,613)	\$ (84,455)	\$ (18,494)
Adjustments arising from translating financial statements from functional currency to presentation currency	89,103	77,367	45,642
Reserve from financial assets measured at fair value through other comprehensive income	5,143	(4,853)	404
Share of other comprehensive income (loss) of companies accounted for at equity	(5,664)	(5,089)	(2,036)
Accumulated other comprehensive income (loss)	\$ (11,031)	\$ (17,030)	\$ 25,516

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2023	2022	2021
<u>Cash flows from operating activities:</u>			
Net income	\$ 165,732	\$ 199,667	\$ 141,902
Adjustments to reconcile net income to net cash provided by operating activities:			
Share of profits of companies accounted for at equity, net	(773)	1,808	(505)
Depreciation and amortization	121,832	115,308	122,184
Changes in value of debentures, net	1,490	517	(624)
Increase (decrease) in employee benefit liabilities	2,707	1,000	(220)
Gain from disposition of a subsidiary of Matrix IT	-	(44,260)	-
Loss (gain) from sale of property, plants and equipment	66	(37)	(21)
Loss from early termination of lease	-	80	-
Share-based payment expenses	18,622	14,953	14,767
Changes in value of short-term and long-term loans from banks and others and deposits, net	833	(4,688)	2,030
Changes in deferred taxes, net	(8,344)	(18,142)	(7,997)
Cash paid in respect of acquisitions of activities	(6,572)	(4,060)	(556)
Change in liability in respect of business combinations	(2,062)	(2,971)	5,296
Impairment of right-of-use asset	-	-	1,439
Change in fair value of financial assets measured at fair value through profit or loss	5	19	-
Amortization of premium and accrued interest on debt instruments at fair value through other comprehensive income	(114)	76	96
Gain from revaluation of dividend preference derivative in TSG	(85)	(1,221)	(255)
Effect of exchange rate on cash and cash equivalents held in currencies other than the functional currency	991	2,412	614
<u>Working capital adjustments:</u>			
Decrease (increase) in inventories	(3,382)	(13,756)	4,642
Decrease (increase) in trade receivables	6,562	(51,398)	(150,818)
Decrease in other current and long-term accounts receivable	(5,833)	2,627	20,506
Increase in trade payables	18,718	25,328	40,076
Increase in other accounts payable and employees and payroll accrual	(25,117)	22,292	7,255
Increase (decrease) in deferred revenues	9,692	(6,418)	9,283
Net cash provided by operating activities	<u>\$ 294,968</u>	<u>\$ 239,136</u>	<u>\$ 209,094</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2023	2022	2021
<u>Cash flows from investing activities:</u>			
Payments for business acquisitions, net of cash acquired (Appendix C)	\$ (36,966)	\$ (52,262)	\$ (77,155)
Proceeds from sale of a subsidiary of Matrix IT (Appendix D)	-	42,928	-
Taxes paid in conjunction with sale of a subsidiary	-	(8,424)	-
Cash paid in conjunction with deferred payments and contingent liabilities related to business combinations	(11,874)	(5,181)	(8,630)
Loan extended to related party and others	(7,001)	-	(161)
Purchase of intangible assets	(763)	(3,142)	(872)
Purchase of other investment	(498)	(15,073)	(500)
Purchase of financial assets measured at fair value through other comprehensive income	(1,243)	-	-
Purchase of property and equipment	(16,683)	(22,063)	(17,352)
Proceeds from maturity and sale net of investment in debt instruments at fair value through other comprehensive income or loss, net	699	309	-
Proceeds from sale of property and equipment	1,043	633	2,283
Receipt of short-term loans	-	-	303
Dividend from companies accounted for at equity	68	48	83
Change in short-term and long-term deposits	(51,467)	2,042	4,641
Capitalization of software development and other costs	(14,552)	(14,110)	(12,832)
Net cash used in investing activities	<u>\$ (139,237)</u>	<u>\$ (74,295)</u>	<u>\$ (110,192)</u>
<u>Cash flows from financing activities:</u>			
Exercise of employees' stock options in subsidiaries	\$ 4,831	-	\$ 2,079
Cash paid in conjunction with acquisitions of activities	(6,718)	-	-
Dividend paid to non-controlling interests	(62,487)	(96,530)	(62,993)
Dividend to Formula's shareholders	(9,927)	(21,778)	(22,081)
Short-term bank credit, net	(9,527)	(7,315)	36,261
Repayment of long-term loans from banks and others	(82,874)	(87,894)	(84,241)
Receipt of long-term loans from banks and others	55,568	65,678	62,707
Proceeds from issuance of debentures, net	-	199,051	50,295
Repayment of long-term liabilities to IIA	(394)	(642)	(825)
Repayment of debentures	(60,449)	(53,105)	(46,981)
Purchase of non-controlling interests	(2,661)	(16,795)	(1,700)
Repayment of lease liabilities	(55,064)	(49,702)	(44,086)
Cash paid due to exercise of put option by non-controlling interests	(13,204)	(1,854)	(2,565)
Redemption of capital note of non-controlling interests in subsidiaries	-	(95)	-
Payment to non-controlling interests due to put option	(271)	-	-
Net cash used by financing activities	<u>\$ (243,177)</u>	<u>\$ (70,981)</u>	<u>\$ (114,130)</u>
Effect of exchange rate changes on cash and cash equivalents	(4,950)	(34,910)	(1,030)
Increase (decrease) in cash and cash equivalents	(92,396)	58,950	(16,258)
Cash and cash equivalents at beginning of year	544,342	485,392	501,650
Cash and cash equivalents at end of year	<u>\$ 451,946</u>	<u>\$ 544,342</u>	<u>\$ 485,392</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended, December 31,		
	2023	2022	2021
A. Supplemental cash flow information:			
Cash paid (received) in respect of:			
Interest paid	\$ 26,140	\$ 17,573	\$ 15,344
Interest received	\$ 7,290	\$ 2,325	\$ 459
Taxes paid, net	\$ 76,694	\$ 51,259	\$ 38,393
B. Non-cash activities:			
Purchase of property and equipment	\$ 86	\$ 930	\$ 1,627
Intangible assets and goodwill incurred but unpaid at period end	\$ 382	\$ -	\$ -
Contingent acquisition consideration	\$ (124)	\$ -	\$ -
Dividend payable to non-controlling interests	\$ -	\$ 111	\$ 331
Right-of-use asset recognized with corresponding lease liability	\$ 45,360	\$ 52,319	\$ 39,116
C. Acquisition of newly-consolidated subsidiaries and activities, net of cash acquired:			
Assets and liabilities of subsidiaries consolidated as of acquisition date:			
Working capital (other than cash and cash equivalents)	\$ (10,355)	\$ (5,457)	\$ 1,623
Inventories	(4,343)	(3,536)	-
Short-term investments	-	(752)	-
Short-term deposits	-	(191)	-
Property and equipment	(242)	(1,433)	(1,507)
Goodwill and intangible assets	(44,728)	(87,905)	(108,048)
Right-of-use assets	(93)	(2,754)	(2,401)
Other long-term assets	(2,439)	(123)	(187)
Liabilities to banks and others	7,101	5,142	6,431
Long-term liabilities	282	1,240	1,306
Lease liabilities	93	2,754	2,769
Deferred tax liability, net	2,799	5,692	9,662
Liability to formerly shareholders	1,244	7,327	1,518
Deferred payments and contingent consideration	1,931	23,515	7,663
Non-controlling interests at acquisition date	11,784	4,219	4,016
Total	\$ (36,966)	\$ (52,262)	\$ (77,155)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2023	2022	2021
D. Proceeds from sale of investment in previously consolidated subsidiary:			
Assets and liabilities of the subsidiary at date of sale:			
Working capital (other than cash and cash equivalents)	\$ -	\$ (6,798)	\$ -
Short-term investments	-	5,004	-
Property and equipment	-	782	-
Goodwill and intangible assets	-	439	-
Other long-term assets	-	67	-
Long-term liabilities	-	(15)	-
Non-controlling interests at the sale date	-	(811)	-
Gain from realization of a subsidiary	-	44,260	-
Total	<u>\$ -</u>	<u>\$ 42,928</u>	<u>\$ -</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 1:- GENERAL

a. General:

Formula Systems (1985) Ltd. ("Formula" or the "Company") was incorporated in Israel and began its business operations in 1985. Since 1991, Formula's ordinary shares, par value NIS 1 per share, have been traded on the Tel-Aviv Stock Exchange ("TASE"), and, in 1997, began trading through American Depositary Shares ("ADSs") under the symbol "FORTY" on the Nasdaq Global Market in the United States until January 3, 2011, at which date the listing of Formula's ADSs was transferred to the Nasdaq Global Select Market ("Nasdaq"). Each ADS represents one ordinary share of Formula. The Company is considered an Israeli resident. The controlling shareholder of the Company is Asseco Poland S.A. ("Asseco"), a Polish public company, whose shares are traded on the Warsaw Stock Exchange, that offers comprehensive, proprietary IT solutions for all sectors of the economy.

b. Formula is a global information technology group providing software services, proprietary and non-proprietary software solutions, software product marketing and support, computer infrastructure and integration solutions and training, integration and digital advertising solutions (the "Group"). The Group manages and operates its businesses through eight directly held subsidiaries; Matrix IT Ltd. ("Matrix"), Sapiens International Corporation N.V ("Sapiens"), Magic Software Enterprises Ltd. ("Magic Software"), Zap Group Ltd. ("ZAP Group"), Insync Staffing Solutions, Inc. ("Insync"), Michpal Micro Computers (1983) Ltd. ("Michpal"), Ofek Aerial Photography Ltd. ("Ofek") and Shamrad Electronic (1997) Ltd ("Shamrad") and one jointly controlled entity: TSG IT Advanced Systems Ltd. ("TSG").

c. The following table presents the ownership of the Company's eight directly held subsidiaries and one jointly controlled entity directly held as of the dates indicated (the list consists only of active companies):

	Percentage of ownership	
	December 31,	
	2023	2022
Matrix IT	48.21	48.69
Sapiens	43.63	44.10
Magic Software	46.71	46.26
Insync	90.09	90.09
Michpal	100.00	100.00
TSG ⁽¹⁾	50.00	50.00
Ofek	80.00	80.00
ZAP Group	100.00	100.00
Shamrad	100.00	100.00

(1) TSG's results of operations are reflected in the Company's results of operations using the equity method of accounting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 1:-GENERAL (Cont.)

d. Definitions:

In these financial statements:

- | | | |
|--|---|---|
| The Company or Formula | - | Formula Systems (1985) Ltd. |
| The Group | - | Formula Systems (1985) Ltd. and its investees. |
| Subsidiaries | - | Companies that are controlled by the Company (as defined in IFRS 10) and whose accounts are consolidated with those of the Company. |
| Jointly controlled entities | - | Companies owned by various entities that have a contractual arrangement for joint control and are accounted for using the equity method of accounting. |
| Associates | - | Companies over which the Company has significant influence and that are not subsidiaries. The Company's investment therein is included in the financial statements using the equity method of accounting. |
| Investees | - | Subsidiaries, jointly controlled entities, and associates. |
| Interested parties and controlling shareholder | - | As defined in the Israeli Securities Regulations (Annual Financial Statements), 2010. |
| Related parties | - | As defined in IAS 24. |

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES

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

1) Basis of presentation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (“IFRS”).

The Company’s financial statements have been prepared on a cost basis, except for certain assets and liabilities such as: financial assets measured at fair value through other comprehensive income; liabilities with respect to business combination; and other financial assets and liabilities (including derivatives) which are presented at fair value through profit or loss, provisions, employee benefit assets and liabilities, investments in associates and joint ventures.

The Company has elected to present the profit or loss items using the function of expense method.

2) Use of estimates, judgments and assumptions:

The preparation of the consolidated financial statements requires management to make estimates, judgments, 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 the financial statements. Such judgments, estimates and assumptions are related, but not limited to, effective control, liabilities with respect to business combination, goodwill and identifiable intangible assets and their subsequent impairment analysis, determination of fair value of put options of non-controlling interests, legal contingencies, research and development capitalization, classification of leases, income tax uncertainties, deferred taxes, share-based compensation, as well as the determination of revenue recognition from contracts accounted for based on the estimate of percentage of completion. The Company’s management believes that the estimates, judgments, and assumptions used, are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Changes in accounting estimates are reported in the period of the change in estimate.

3) Consolidated financial statements:

The consolidated financial statements comprise the financial statements of companies that are controlled by the Company (subsidiaries). Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to unilaterally affect those returns through its power over the investee. Potential voting rights are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

The financial statements of the Company and of the investees, after being adjusted to comply with IFRS, are prepared for the same reporting period and using consistent accounting treatment of similar transactions and economic activities. Any discrepancies in the applied accounting policies are eliminated by making appropriate adjustments. Significant intragroup balances and transactions and gains or losses resulting from intragroup transactions are eliminated in full in the consolidated financial statements.

Effective control:

In a situation where the Company holds less than a majority of voting power in a given entity, but that power is sufficient to enable the Company to unilaterally direct the relevant activities of such entity, then control is exercised. When assessing whether voting rights held by the Company are sufficient to give it power, the Company considers all facts and circumstances, including: the amount of those voting rights relative to the amount and dispersion of other vote holders; potential voting rights held by the Company and other shareholders or parties; rights arising from other contractual arrangements; significant personal ties; and any additional facts and circumstances that may indicate that the Company has, or does not have, the ability to direct the relevant activities when decisions need to be made, inclusive of voting patterns observed at previous meetings of shareholders.

The Company's management has concluded that despite the lack of absolute majority of voting power at the general meetings of shareholders of Matrix IT, Sapiens and Magic Software, in accordance with IFRS 10, these investees are controlled by the Company. The conclusion regarding the existence of control during the years ended December 31, 2023, 2022 and 2021 with respect to Matrix, Sapiens and Magic Software, in accordance with IFRS 10, was made in accordance with the following factors:

Matrix IT:

As of December 31, 2023, the Company held 48.21% of the outstanding ordinary shares of Matrix. The conclusion regarding the existence of control in Matrix, in line with IFRS 10, was made considering the following additional factors:

i) Governing bodies of Matrix:

Decisions of Matrix's shareholders general meeting are taken by a simple majority of votes represented at the general meeting; the annual (ordinary) general meeting adopts resolutions to elect individual directors, appoint Matrix's independent auditors for the next year, as well as approve Matrix's financial statements and management's report on operations; in accordance with Matrix's articles of association, the board of directors of Matrix is responsible for managing its current business operations and is authorized to take substantially all decisions which are not specifically reserved to Matrix's shareholders by its articles of association, including the decision to pay out dividends; Matrix's board of directors is composed of 5 members, 2 of whom are external directors as required by the Israeli Companies Law, 5759-1999, another one of whom is an independent director, while the remaining two directors are associated with Formula, including Formula's chief executive officer who serves as the chairman of Matrix's board of directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

ii) Shareholders structure of Matrix IT:

Matrix's shareholders' structure may be considered dispersed because, apart from the Company, only two shareholders (both Israeli institutional investors) held more than 5% of Matrix's voting power during the reporting period (one holding approximately 10.3% and the second one holding approximately 5%); there is no evidence that any of the shareholders has or had granted to any other shareholder a voting proxy at the general meeting; over the last three years (i.e., 2021-2023), Matrix's general meetings were attended by shareholders representing in aggregate between 79% -83% of total voting rights. This means that the level of activity of the company's shareholders is relatively moderate. Bearing in mind that the company presently holds approx. 48.21% of total voting rights, the attendance from shareholders would have to be higher than 96.42% in order to deprive Formula of an absolute majority of votes at the general meeting. The Company believes that achieving such high attendance seems unlikely. In addition, Israeli law provides that institutional investors should not hold the ability to direct the company's business and as such should not exceed 20% each. An institutional investor cannot also hold more than 20% seats in board of directors. Looking at entire Israeli market the practice is that institutional investors are not taking positions on boards of directors – as having such position would impact institutional investors' ability to have certain transactions on the market (e.g. insider trading threat). If institutional investors cooperate between themselves, they may be considered violating this rule – moreover if they vote in the same way however, contrary to the major shareholder they might be accused of cooperation and violation of the rule. Hence, there is both legal and practical limitation of these investors to coordinate approaches.

With regard to the above, the Group has determined that the company, despite the lack of an absolute majority of shares in Matrix IT, is still able to influence the appointment of directors at Matrix IT, and therefore may affect the directions of development as well as current business operations of that company.

Sapiens:

As of December 31, 2023, the Company held 43.63% of the outstanding common shares of Sapiens. The conclusion regarding the existence of control in Sapiens, in line with IFRS 10, was made considering the following factors:

i) Governing bodies of Sapiens:

Decisions of Sapiens' shareholders general meeting are taken by a simple majority of votes represented at the general meeting; the annual (ordinary) general meeting adopts resolutions to appoint individual directors, choose Sapiens' independent auditors for the next year, as well as approve the company's financial statements and management's report on operations; in accordance with Sapiens' articles of association, the board of directors of Sapiens is responsible for managing its current business operations and is authorized to take substantially all decisions which are not specifically reserved to Sapiens' shareholders by its articles of association, including the decision to pay out dividends. Sapiens' board of directors is composed of 6 members, 3 of whom are independent directors, and one being Formula's chief executive officer who serves as the chairman of Sapiens' board of directors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

ii) Shareholders structure of Sapiens:

Sapiens' shareholders structure is dispersed because no other shareholder except for the Company's controlling shareholder, held as of December 31, 2023 more than 5% of the voting rights. There is no evidence that any shareholder has or had granted to any other shareholder a voting proxy at the general meeting; and, over the last three years (i.e., 2021-2023), Sapiens' general meetings were attended by shareholders representing in total between 81%-84% the total voting power, including the Company's voting power. This fact indicates that public shareholder participation is not considerably high and in order to have a majority against the company potential 43.63% voting rights there will be needed at least 87.26% of all shareholder votes that participating in each of the annual shareholders' meeting.

Therefore it is management's opinion that despite the lack of an absolute majority of shares in Sapiens, the Company is still able to influence the appointment of directors at Sapiens and therefore may affect Sapiens' directions of development as well as its current business operations.

Magic Software:

As of December 31, 2023, the Company held 46.71% of the outstanding ordinary shares of Magic Software. The conclusion regarding the existence of control in Magic Software, in line with IFRS 10, was made considering the following factors:

i) Governing bodies of Magic Software:

Decisions of Magic Software's shareholders general meeting are taken by a simple majority of votes represented at the general meeting; the annual (ordinary) general meeting adopts resolutions to elect individual directors, appoint Magic Software's independent auditors for the next year, as well as to approve Magic Software's financial statements and the management's report on operations; in accordance with Magic Software's articles of association, the board of directors of Magic Software is responsible for managing Magic Software's current business operations and is authorized to take substantially all decisions which are not specifically reserved to Magic Software's shareholders by its articles of association, including the decision to pay out dividends; and, Magic Software's board of directors is composed of 6 members, 3 of whom are external directors, the other three internal directors are affiliated (currently and in the past) with the company. One of whom is Formula's chief executive officer, who also serves as Magic Software's chief executive officer.

ii) Shareholders structure of Magic Software:

Magic Software's shareholders structure is dispersed because, apart from the Company, as of December 31, 2023, there were two financial Israeli institutional shareholders holding more than 5% of Magic Software's voting rights, holding 6.97% and 10.7% as of 31 December, 2023; there is no evidence that any of the shareholders have or had granted to any other shareholder a voting proxy at the general meeting; and, over the last three years from (i.e., 2021-2023), Magic Software's general meetings were attended by shareholders representing between 84.7%-86.7% of the total voting rights. This fact indicates that public shareholder participation is not considerably high and in order to have a majority against the company potential 46.71% there will be needed at least 93.43% of all shareholder votes that participating in each of the annual shareholders' meeting. Therefore, it is management's opinion that despite the lack of an absolute majority of shares in Magic Software, the Company is still able to influence the appointment of directors at Magic Software and therefore may affect Magic Software's directions of development as well as its current business operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

4) Non-controlling interests

Non-controlling interests in subsidiaries, represent the equity in subsidiaries not attributable, directly or indirectly, to a parent. Non-controlling interests are presented in equity separately from the equity attributable to the equity holders of the Company. Profit or loss and components of other comprehensive income are attributed to the Company and to non-controlling interests. Losses are attributed to non-controlling interests even if they result in a negative balance of non-controlling interests in the consolidated statement of financial position. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as a change in equity by adjusting the carrying amount of the non-controlling interests with a corresponding adjustment of the equity attributable to equity holders of the Company less / plus the consideration paid or received. For more information regarding put options to the Non-controlling interests please see Note 2(16)(E) below.

5) 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 acquiree. In each business combination, the Company determines whether to measure the non-controlling interests in the acquiree based on their fair value on the acquisition date or at their proportionate share in the fair value of the acquiree's net identifiable assets.

Direct acquisition costs are carried to the statement of profit or loss as incurred.

Contingent consideration is recognized at fair value on the acquisition date and classified as a financial asset or liability in accordance with IFRS 9, "Financial Instruments". Subsequent changes in the fair value of the contingent consideration are recognized in profit or loss. If the contingent consideration is classified as an equity instrument, it is measured at fair value on the acquisition date without subsequent remeasurement.

Goodwill is initially measured at cost which represents the excess of the acquisition consideration and the amount of non-controlling interests over the net identifiable assets acquired and liabilities assumed. If the resulting amount is negative, the acquirer recognizes the resulting gain on the acquisition date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

6) Investment in joint arrangements:

Joint arrangements are arrangements in which the Company has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

i. Joint ventures:

In joint ventures the parties that have joint control of the arrangement have rights to the net assets of the arrangement. A joint venture is accounted for by using the equity method.

7) Functional currency, presentation currency and foreign currency:

i. Functional currency and presentation currency:

The presentation currency of these consolidated financial statements of the Group is the U.S. dollar (the “dollar”), since the Company believes that financial statements in U.S. dollars provide more relevant information to its investors and users of the financial statements. The functional currency applied by Formula, on a stand-alone basis, Since January 1, 2019 is the NIS. The functional currencies applied by Formula’s subsidiaries and associates are the currencies of the primary economic environment in which each one of them operates.

Assets and liabilities of an investee which is a foreign operation, including fair value adjustments upon acquisition, are translated at the closing rate at each reporting date. Profit or loss items are translated at average exchange rates for all periods presented. The resulting translation differences are recognized in other comprehensive income (loss).

Intragroup loans for which settlement is neither planned nor likely to occur in the foreseeable future are, in substance, a part of the investment in the foreign operation and, accordingly, the exchange rate differences from these loans (net of the tax effect) are recorded in other comprehensive income (loss).

Upon the full or partial disposal of a foreign operation resulting in loss of control in the foreign operation, the cumulative gain (loss) from the foreign operation which had been recognized in other comprehensive income is transferred to profit or loss. Upon the partial disposal of a foreign operation which results in the retention of control in the subsidiary, the relative portion of the amount recognized in other comprehensive income is reattributed to non-controlling interests.

ii. Transactions, assets and liabilities in foreign currency:

Transactions denominated in foreign currency are recorded upon initial recognition at the exchange rate at the date of the transaction. After initial recognition, monetary assets and liabilities denominated in foreign currency are translated at each reporting date into the functional currency at the exchange rate at that date. Exchange rate differences are recognized in profit or loss. Non-monetary assets and liabilities denominated in foreign currency and measured at cost are translated at the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the functional currency using the exchange rate prevailing at the date when the fair value was determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

8) Short-term deposits:

Short-term deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their terms of deposit. Restricted deposits include deposits used to secure certain subsidiaries' ongoing projects, as well as security deposits with respect to leases, and are classified under other short-term and long-term receivables.

As of December 31, 2023, the group have dollar deposits in the amount of approximately 76 million dollars, for a period not exceeding three months that carry a monthly interest rate of approximately 1.78%.

9) Inventories:

Inventories are measured at the lower of 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 estimated costs of completion and estimated costs necessary to make the sale. Inventories are mainly comprised of purchased merchandise and products which consist of educational software kits, computers, peripheral equipment and spare parts. Cost is determined on the "first in – first out" basis. The Group periodically evaluates the condition and aging of its inventories and makes provisions for slow-moving inventories accordingly. No such impairments have been recognized in any period presented.

10) Revenue recognition:

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

In determining the amount of revenue from contracts with customers, the Group evaluates whether it is a principal or an agent in the arrangement. The Group is a principal when the Group controls the promised goods or services before transferring them to the customer. In these circumstances, the Group recognizes revenue for the gross amount of the consideration. When the Group is an agent, it recognizes revenue for the net amount of the consideration, after deducting the amount due to the principal.

Sale of software licensing, maintenance services and post implementation consulting services

A software licensing transaction that does not require significant implementation services is considered a distinct performance obligation, as the customer can benefit solely from the software on its own or together with other readily available resources.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

The Group recognizes revenue from software licensing transactions at a point in time when the Group provides the customer a right to use the Group's intellectual property as it exists at the point in time at which the license is granted to the customer. The Group recognizes revenue from software licensing transactions over time when the Group provides the customer a right to access the Group's intellectual property throughout the license term. The Group may generate revenue from sale of software licensing which includes significant implementation and customization services. In such contracts the Group is normally committed to provide the customer with a functional IT system and the customer can only benefit from such functional system, being the final product that would normally be comprised of proprietary licenses and significant related services. Revenues from these contracts are based on either fixed price or time and material.

Software licensing transactions which involve significant implementation, customization, or integration of the Group's software license to customer-specific requirements, are considered as one performance obligation satisfied over-time. The underlying deliverable is owned and controlled by the customer and does not create an asset with an alternative use to the Group. In addition, the Group has an enforceable right to payment for performance completed throughout the duration of the contract.

Accordingly, the Group recognizes revenue from such contracts over time, using the percentage of completion accounting method. The Group recognizes revenue and gross profit as the work is performed based on a ratio between actual costs incurred compared to the total estimated costs for the contract. Provisions for estimated losses on uncompleted contracts are made during the period in which such losses are first determined, in the amount of the estimated loss for the entire contract.

When post implementation and consulting services do not involve significant customization, the Group accounts for such services as performance obligations satisfied over time and revenues are recognized as the services are provided.

Revenue from maintenance is recognized over time, during the period the customer simultaneously receives and consumes the benefits provided by the Group's performance. When payments from customers are made before or after the service is performed, the Group recognizes the resulting contract asset or liability.

Sale of hardware and infrastructure

Revenue from the sale of hardware and infrastructure is recognized in profit or loss at the point in time when the control of the goods is transferred to the customer, generally upon delivery of the goods to the customer.

Sale of training and implementation services

Revenues from training and implementation services are recognized when the service is provided. Revenue from training services in respect of public courses whose operating range is up to 3 months is recognized at the end of the course period. Revenues from training services in respect of long-term courses will be recognized over the term of the course. Revenues from implementation projects ordered by organizations is recognized according to actual inputs (actually worked hours).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)Revenue of contracts according to actual inputs

Revenue from framework agreements for the performance of work according to actual inputs is recognized according to the hours invested.

Revenue of fixed price contracts

Revenue from fixed price contracts is recognized according to the completion rate method when all the following conditions are met: the revenue 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 Group applies a cost-based input method for measuring the progress of performance obligations that are satisfied over time. In applying this cost-based input method, the Group estimates the costs to complete contract performance in order to determine the amount of the revenue to be recognized. These estimated costs include the direct costs and the indirect costs that are directly attributable to a contract based on a reasonable allocation method. In certain circumstances, the Group is unable to measure the outcome of a contract, but the Group expects to recover the costs incurred in fulfilling the contract as of the reporting date. In such circumstances, the Group recognizes revenue to the extent of the costs incurred as of the reporting date until such time the outcome of the contract can be reasonably measured. If a loss is anticipated from a contract, the loss is recognized in full regardless of the percentage of completion.

When appropriate, the Group also applies a practical expedient permitted under IFRS 15 whereby if the Group has a right to consideration from a customer in an amount that corresponds directly with the value to the customer of the Group's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the Group may recognize revenue in the amount it is entitled to invoice. Deferred revenues, which represent a contract liability, include unearned amounts received under maintenance and support (mainly) and amounts received from customers for which revenues have not yet been recognized.

Allocating the transaction price

For contracts that consist of more than one performance obligation, at contract inception the Group 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 Group would sell the promised goods or services separately to a customer. The Group determines the stand-alone selling price for the purposes of allocating the transaction price to each performance obligation by considering several external and internal factors including, but not limited to, transactions where the specific performance obligation is sold separately, historical actual pricing practices and geographies in which the Group offers its products and services. If a specific performance obligation, such as the software license, is sold for a broad range of amounts (that is, the selling price is highly variable) or if the Group has not yet established a price for that good or service, and the good or service has not previously been sold on a stand-alone basis (that is, the selling price is uncertain), the Group applies the residual approach whereby all other performance obligations within a contract are first allocated a portion of the transaction price based upon their respective stand-alone selling prices, with any residual amount of transaction price allocated to the remaining specific performance obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)Variable consideration

The Group determines the transaction price separately for each contract with a customer. When exercising this judgment, the Group evaluates the effect of each variable amount in the contract, taking into consideration discounts, penalties, variations, claims, and non-cash consideration. In determining the effect of the variable consideration, the Group 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.

Costs of obtaining a contract

In order to obtain certain contracts with customers, the Group incurs incremental costs in obtaining the contract (such as sales commissions which are contingent on making binding sales). Costs incurred in obtaining the contract with the customer which would not have been incurred if the contract had not been obtained and which the Group expects to recover are recognized as an asset and amortized on a systematic basis that is consistent with the provision of the services under the specific contract. An impairment loss in respect of capitalized costs of obtaining a contract is recognized in profit or loss when the carrying amount of the asset exceeds the remaining amount of consideration that the Group expects to receive for the goods or services to which the asset relates, less the costs that relate directly to providing those goods or services and that have not been recognized as expenses.

The Group has elected to apply the practical expedient allowed by IFRS 15 according to which incremental costs of obtaining a contract are recognized as an expense when incurred if the amortization period of the asset is one year or less.

Revenues that include warranty services

In certain cases, the Group also provides a warranty for goods and services sold (i.e., extended warranties when the Group contractually undertakes to repair any errors in the delivered software within a strictly specified time limit and/or when the scope of which is broader than just an assurance to the customer that the product/service complies with agreed-upon specifications). The Group has ascertained that such warranties granted by the Group meet the definition of service. The conclusion regarding the extended nature of a warranty is made whenever the Group contractually undertakes to repair any errors in the delivered software within a strictly specified time limit and/or when such warranty is more extensive than the minimum required by law. Under IFRS 15, the fact of granting an extended warranty indicates that the Group provides an additional service. As such, the Group recognizes an extended warranty as a separate performance obligation and allocates a portion of the transaction price to such service. In all cases where an extended warranty is accompanied by a maintenance service, which is even a broader category than the extended warranty itself, revenues are recognized over time because the customer consumes the benefits of such service as it is performed by the provider. If this is the case, the Group continues to allocate a portion of the transaction price to such maintenance service. Likewise, in cases where a warranty service is provided after the project completion and is not accompanied by any maintenance service, then a portion of the transaction price and analogically recognition of a portion of contract revenues will have to be deferred until the warranty service is actually fulfilled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)Disaggregation of revenue

Service revenue includes contracts primarily for the provision of supplies and services other than design, development, customization, implementation, software maintenance and support and software updates associated with delivery of products or proprietary software. It may be a stand-alone service contract or a service performance obligation which is distinct from a contract or performance obligation for design, development, customization, support and upgrade or delivery of product. The Group's service contracts include contracts in which the customer simultaneously receives and consumes the benefits provided as the performance obligations are satisfied. The Group's service contracts primarily include operation-type contracts, outsourcing, consulting, remote development services, digital advertising management, training and similar activities.

Transaction prices allocated to performance obligation

Remaining performance obligations represent contract revenue that has not yet been recognized, which includes deferred revenue and amounts that will be invoiced and recognized as revenue in future periods. The aggregate amount of consideration allocated to performance obligations either not satisfied or partially unsatisfied was approximately \$2,319,937 as of December 31, 2023 respectively. Remaining performance obligations include the remaining non-cancelable, committed and fixed portion of these contracts for their entire duration. The remaining performance obligations related to professional services contracts that are on a time and materials basis were excluded, as the Company elected to apply the practical expedient in accordance with IFRS 15. The Company expected to recognize approximately 66.2% in 2024 from remaining performance obligations as of December 31, 2023, and the remainder thereafter.

11) Income tax:

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

- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

- Deferred taxes:

Deferred taxes are computed in respect of temporary differences between the carrying amounts in the financial statements and the amounts attributed for tax purposes. Deferred taxes are measured at the tax rate that is expected to apply when the asset is realized or the liability is settled, based on tax laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets are reviewed at each reporting date and reduced to the extent that it is not probable that they will be utilized. 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 considered 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 considered in computing deferred taxes, since the distribution of dividends does not involve an additional tax liability or since it is the Group's policy not to initiate distribution of dividends from a subsidiary that would trigger an additional tax liability. Taxes on income that relate to distributions of an equity instrument and to transaction costs of an equity transaction are accounted for pursuant to IAS 12. 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.

12) Leases:

The Group 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.

i) The Group as lessee:

For leases in which the Group is the lessee, the Group recognizes on the commencement date of the lease a right-of-use asset and a lease liability, excluding leases whose term is up to twelve months and leases for which the underlying asset is of low value. For these excluded leases, the Group has elected to recognize the lease payments as an expense in profit or loss on a straight-line basis over the lease term. In measuring the lease liability, the Group 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 which entitle employees to a company car as part of their employment terms are accounted for as employee benefits in accordance with the provisions of IAS 19 and not as subleases.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- ACCOUNTING POLICIES (Cont.)

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

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

	<u>Years</u>	<u>Mainly</u>
Land and Buildings	2-23	3
Motor vehicles	2-3	3

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

ii) Lease extension and termination options:

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

In the event of any change in the expected exercise of the lease extension option or in the expected non-exercise of the lease termination option, the Group remeasures the lease liability based on the revised lease term using a revised discount rate as of the date of the change in expectations. The total change is recognized in the carrying amount of the right-of-use asset until it is reduced to zero, and any further reductions are recognized in profit or loss.

iii) Lease modifications:

If a lease modification does not reduce the scope of the lease and does not result in a separate lease, the Group remeasures the lease liability based on the modified lease terms using a revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset. If a lease modification reduces the scope of the lease, the Group recognizes a gain or loss arising from the partial or full reduction of the carrying amount of the right-of-use asset and the lease liability. The Group subsequently remeasures the carrying amount of the lease liability according to the revised lease terms, at the revised discount rate as of the modification date and records the change in the lease liability as an adjustment to the right-of-use asset.

13) Property, plant and equipment, net:

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. Cost includes spare parts and auxiliary equipment that are used in connection with plant and equipment. The cost of an item of property, plant and equipment comprises the initial estimate of the costs of dismantling and removing the item and restoring the site on which the item is located.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- ACCOUNTING POLICIES (Cont.)

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

	<u>%</u>
Computers, software, and peripheral equipment	20 – 33
Office furniture and equipment	6 – 33 (mainly 7)
Motor vehicles	13 – 15 (mainly 15)

Leasehold improvements are amortized using the straight-line method over the term of the lease (including option terms that are deemed to be reasonably assured) or the estimated useful life of the improvements, whichever is shorter.

The useful life, the depreciation method and the residual value of an asset are reviewed at least each year-end (at the end of the year) and any changes are accounted for prospectively as a change in accounting estimate. 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. For impairment testing of property, plant and equipment, see Note 2 (15) below.

14) Intangible assets, net:

Separately acquired intangible assets are measured on initial recognition at cost including directly attributable costs. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Expenditures relating to internally generated intangible assets, excluding capitalized development costs, are recognized in profit or loss when incurred. Intangible assets with a finite useful life are amortized over their useful life 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 are reviewed at least at each year end.

Other intangible assets

Intangible assets excluding capitalized development costs are comprised mainly of customer-related intangible assets, backlogs, acquired technology and patent, and are amortized over their useful lives using a method of amortization that reflects the pattern in which the economic benefits of the intangible assets are consumed or otherwise used up. The useful life of intangible assets is as follows:

	<u>Years</u>
Customer relationship, backlog and distribution rights	1 – 15
Acquired technology	2 – 8
Patents	10

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

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

15) Impairment of non-financial assets:

The Group evaluates the need to record an impairment of non-financial assets (property, plant and equipment, capitalized software costs and other intangible assets, goodwill, investments in joint venture) 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 less costs of sale and value in use. In measuring value in use, the expected future cash flows are discounted using a pre-tax discount rate that reflects the risks specific to the asset. The recoverable amount of an asset that does not generate independent cash flows is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in profit or loss.

An impairment loss of an asset, other than goodwill, is reversed only if there have been changes in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. Reversal of an impairment loss, as above, shall not be increased above the lower of the carrying amount that would have been determined (net of depreciation or amortization) had no impairment loss been recognized for the asset in prior years and its recoverable amount. The reversal of impairment loss of an asset presented at cost is recognized in profit or loss.

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

i. Goodwill in respect of subsidiaries:

For the purpose of impairment testing, goodwill acquired in a business combination is allocated, at the acquisition date, to each of our cash-generating units that are expected to benefit from the synergies of the combination. The Group reviews goodwill for impairment once a year, on December 31, or more frequently if events or changes in circumstances indicate that there is an 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

The discounted cash flow method is used to determine the recoverable amount of a cash-generating unit or the group of cash-generating units to which goodwill is allocated. The projected cash flows are derived from the budget for the next five years and do not include restructuring activities to which the Company is not yet committed or significant future investments that will enhance the performance of the assets of the cash-generating unit being tested. The recoverable amount is sensitive to key assumptions used by the Company's management to determine the recoverable amount, including discount rates and future growth rate. The discount rates are calculated based on a risk-free rate of interest and a market risk premium. The discount rates reflect the current market assessment of the risks specific to each group of cash-generating units by taking into account specific group information on beta factors, leverage and cost of debt. The Company performed annual impairment tests as of December 31, 2023, 2022 and 2021 and did not identify any impairment losses.

ii. Investment in associate or joint venture using the equity method:

After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the investment in associates or joint ventures. The Group determines at each reporting date whether there is objective evidence that the carrying amount of the investment in the associate or the joint venture is impaired. The test of impairment is carried out with reference to the entire investment, including the goodwill attributed to the associate or the joint venture.

iii. Intangible assets with an indefinite useful life / capitalized development costs that have not yet been systematically amortized:

The impairment test is performed annually, on December 31, or more frequently if events or changes in circumstances indicate that there is an impairment.

During the years ended December 31, 2023, 2022 and 2021, no impairment indicators were identified.

16) Financial instruments:

A. 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.

B. Financial liabilities:

i. 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. After initial recognition, the Group 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;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

- Financial guarantee contracts; and
- Contingent consideration recognized by an acquirer in a business combination as to which IFRS 3 applies.

ii. Financial liabilities measured at fair value through profit or loss:

At initial recognition, the Group measures financial liabilities that are not measured at amortized cost at fair value. Transaction costs are recognized in profit or loss. After initial recognition, changes in fair value are recognized in profit or loss.

C. Derecognition of financial liabilities:

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

When there is a modification to the terms of an existing financial liability, the Group evaluates whether the modification is substantial.

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

If the modification is not substantial, the Group recalculates the carrying amount of the liability by discounting the revised cash flows at the original effective interest rate and any resulting difference is recognized in profit or loss.

D. Compound financial instruments:

- i) Convertible debentures which contain both an equity component and a liability component are separated into two components. This separation is performed by first determining the liability component based on the fair value of an equivalent non-convertible liability. The value of the conversion component is determined to be the residual amount. Directly attributable transaction costs are apportioned between the equity component and the liability component based on the allocation of proceeds to the equity and liability components.
- ii) Convertible debentures that are denominated in foreign currency contain two components: the conversion component and the debt component. The liability conversion component is initially recognized as a financial derivative at fair value. The balance is attributed to the debt component. Directly attributable transaction costs are allocated between the liability conversion component and the liability debt component based on the allocation of the proceeds to each component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

E. Put option granted to non-controlling interests:

When the Group grants to non-controlling interests a put option to sell part or all of their interests in a subsidiary, during a certain period, even if such purchase obligation is conditional on the counterparty's exercise of its contractual right to cause such redemption, if the put option agreement does not transfer to the Group any benefits incidental to ownership of the equity instrument (i.e. the Group does not have a present ownership in the shares concerned) then at the end of each reporting period the non-controlling interests (to which a portion of net profit attributable to non-controlling interests is allocated) are classified as a financial liability, as if such put-able equity instrument was redeemed on that date. The difference between the non-controlling interests carrying amount at the end of the reporting period and the present value of the liability is recognized directly in equity of the Group, under "Additional paid-in capital".

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.

If the option is exercised in subsequent periods, the consideration paid upon exercise is treated as settlement of the liability. If the put option expires, the liability is settled and a portion of the investment in the subsidiary disposed of, without loss of control therein.

If the Group has present ownership of the non-controlling interests, these non-controlling interests are accounted for as if they are held by the Group, and changes in the amount of the liability are carried to profit or loss.

17) Fair value measurement:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurement is based on the assumption that the transaction will take place in the asset's or the liability's principal market, or in the absence of a principal market, in the most advantageous market. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. Fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- ACCOUNTING POLICIES (Cont.)

All assets and liabilities measured at fair value or for which fair value is disclosed are categorized into levels within the fair value hierarchy based on the lowest level input that is significant to the entire fair value measurement:

- 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 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).

18) 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. When the Group expects part or all of the expense to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense is recognized in the statement of profit or loss net of any reimbursement.

Following are the types of provisions included in the financial statements:

i. 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.

ii. Contingent liability recognized in a business combination:

A contingent liability in a business combination is measured at fair value upon initial recognition. In subsequent periods, it is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization, and the amount that would be recognized at the end of the reporting period in accordance with IAS 37.

19) Employee benefit liabilities:

The Group maintains several employee benefit plans:

i. Short-term employee benefits:

Short-term employee benefits are benefits that are expected to be settled wholly before twelve (12) 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. A 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 short-term employee benefit liability in the statement of financial position is measured on an undiscounted basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

ii. Post-employment benefits:

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

Formula's and its Israeli subsidiaries and associates accounted for at equity (as defined with respect to their Israeli employee contribution plans pursuant to section 14 of Israel's Severance Pay Law, 1963 (the "Severance Pay Law")) pay fixed contributions to those plans and will have no legal or constructive obligation to pay further contributions if the fund into which those contributions are paid 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 performance of the employee's services.

Formula and its Israeli subsidiaries and companies accounted for at equity also operate a defined benefit plan in respect of severance or retirement pay to their Israeli employees pursuant to the Severance Pay Law. According to the Severance Pay 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 bonds that are linked to Israel's 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.

Severance expenses for the years 2023, 2022 and 2021 were \$47,076, \$51,897 and \$48,331, respectively.

iii. Other long-term employee benefits:

Certain employees of the Group are entitled to benefits in respect of adaptation grants. These benefits are accounted for as other long-term benefits since the Group estimates that these benefits will be utilized and the Group's respective obligation will be settled during the employment period and more than twelve months after the end of the annual reporting period in which the employees rendered the related service.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

The Group's net obligation for other long-term employee benefits, which is computed based on actuarial assumptions, is for the future benefit due to employees for services rendered in the current period and in prior periods and considering expected salary increases. The amount of these benefits is discounted to its present value. The discount rate is determined by reference at the reporting date to market yields on high quality corporate bonds that are linked to the Consumer Price Index and whose term is consistent with the term of the Group's obligation.

Remeasurement of the net obligation is recognized in the statement of comprehensive income in the incurred period.

20) Share-based payment transactions:

The Group's employees and certain service providers are entitled to remuneration in the form of equity-settled share-based payment transactions. The cost of equity-settled transactions with employees is measured at the fair value of the equity instruments granted at grant date. The fair value is determined using an acceptable option pricing model.

The cost of equity-settled transactions is recognized in profit or loss 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.

If the Group modifies the conditions on which equity-instruments were granted, an additional expense is recognized for any modification that increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee/other service provider at the modification date.

If a grant of an equity instrument is canceled, it is accounted for as if it had vested on the cancellation date and any expense not yet recognized for the grant is recognized immediately. However, if a new grant replaces the canceled grant and is identified as a replacement grant on the grant date, the canceled and new grants are accounted for as a modification of the original grant, as described above.

21) Concentration of credit risk:

Financial instruments that potentially subject the Group to concentrations of credit risk consist principally of cash and cash equivalents, short-term deposits, restricted cash, trade receivables.

The majority of the Group's cash and cash equivalents, deposits, and other financial instruments are invested with major banks in Israel, the United States and across Europe. Management believes that these financial instruments are held in financial institutions with high credit standing, and accordingly, minimal credit risk exists with respect to these investments. Cash and cash equivalents and short-term deposits in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally, these banks deposits may be redeemed upon demand and therefore bear minimal risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

The Group's trade receivables are generally derived from sales to large organizations located mainly in Israel, North America, Europe and Asia Pacific. The Group performs ongoing credit evaluations of its customers using a reliable outside source to determine payment terms and credit limits which are approved based on the size of the customer and to date has not experienced any material losses. In certain circumstances, Formula and its subsidiaries and companies accounted for at equity may require letters of credit, other collateral or additional guarantees. From time to time, the Group's subsidiaries sell certain of their accounts receivable to financial institutions, within the normal course of business. The Group maintains an allowance for credit losses based upon management's experience and estimate of collectability of each outstanding invoice. The allowance for credit losses is determined with respect to specific debts or which collection is doubtful. The risk of collection associated with accounts receivable is mitigated by the diversity and number of customers.

22) 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.

Formula and its subsidiaries and companies accounted for at equity examine cash flow forecasts on a monthly basis as well as information regarding cash balances. As of the reporting date, these forecasts indicate that the Group can expect sufficient liquid sources for covering its entire liabilities under reasonable assumptions.

23) Changes in accounting policies – initial adoption of new financial reporting and accounting standards:

1. Amendment to IAS 1, "Presentation of Financial Statements":

In January 2020, the IASB issued an amendment to IAS 1, "Presentation of Financial Statements" regarding the criteria for determining the classification of liabilities as current or non-current ("the Original Amendment"). In October 2022, the IASB issued a subsequent amendment ("the Subsequent Amendment").

According to the Subsequent Amendment:

- Only financial covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current.
- In respect of a liability for which compliance with financial covenants is to be evaluated within twelve months from the reporting date, disclosure is required to enable users of the financial statements to assess the risks related to that liability. The Subsequent Amendment requires disclosure of the carrying amount of the liability, information about the financial covenants, and the facts and circumstances at the end of the reporting period that could result in the conclusion that the entity may have difficulty in complying with the financial covenants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 2:- ACCOUNTING POLICIES (Cont.)

According to the Original Amendment, the conversion option of a liability affects the classification of the entire liability as current or non-current unless the conversion component is an equity instrument. The Original Amendment and Subsequent Amendment are both effective for annual periods beginning on or after January 1, 2024 and must be applied retrospectively. Early adoption is permitted.

The company apply amendments on this consolidated financial statements.

2. Amendments to IAS 7, “Statement of Cash Flows”, and IFRS 7, “Financial Instruments: Disclosures”:

In May 2023, the IASB issued amendments to IAS 7, “Statement of Cash Flows”, and IFRS 7, “Financial Instruments: Disclosures” (“the Amendments”) to address the presentation of liabilities and the associated cash flows arising out of supplier finance arrangements, as well as disclosures required for such arrangements.

The disclosure requirements in the Amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity’s liabilities, cash flows and exposure to liquidity risk.

The Amendments are effective for annual reporting periods beginning on or after January 1, 2024. Early adoption is permitted but will need to be disclosed.

The Company believes that the Amendments are not expected to have a material impact on its consolidated financial statements.

3. Amendments to IAS 21, “The Effects of Changes in Foreign Exchange Rates”:

In August 2023, the IASB issued “Amendments to IAS 21: Lack of Exchangeability (Amendments to IAS 21, “The Effects of Changes in Foreign Exchange Rates”)” (“the Amendments”) to clarify how an entity should assess whether a currency is exchangeable and how it should measure and determine a spot exchange rate when exchangeability is lacking.

The Amendments set out the requirements for determining the spot exchange rate when a currency lacks exchangeability. The Amendments require disclosure of information that will enable users of financial statements to understand how a currency not being exchangeable affects or is expected to affect the entity’s financial performance, financial position and cash flows.

The Amendments apply for annual reporting periods beginning on or after January 1, 2025. Earlier adoption is permitted, in which case, an entity is required to disclose that fact. When applying the Amendments, an entity should not restate comparative information. Instead, if the foreign currency is not exchangeable at the beginning of the annual reporting period in which the Amendments are first applied (the initial application date), the entity should translate affected assets, liabilities and equity as required by the Amendments and recognize the differences as of the initial application date as an adjustment to the opening balance of retained earnings and/or to the foreign currency translation reserve, as required by the Amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- ACCOUNTING POLICIES (Cont.)

The Company believes that the Amendments are not expected to have a material impact on its consolidated financial statements.

24) Certain amounts in the prior years' financial statements have been reclassified to conform to the current year's presentation.

25) Significant accounting judgments, estimates and assumptions used in the preparation of the financial statements:

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

a. Judgments:

- Effective control:

The Company evaluates whether it controls a company in which it holds less than the majority of the voting rights by, among others, reference to the size of its share of voting rights relative to the size and dispersion of voting rights held by the other shareholders, and by voting patterns at previous shareholders' meetings.

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

The fair value of share-based payment transactions is determined upon initial recognition by an acceptable option pricing model. The inputs to the model include share price, exercise price and assumptions regarding expected volatility, expected life of share option and expected dividend yield.

- Discount rate for a lease liability:

When the Company is unable to readily determine the discount rate implicit in a lease in order to measure the lease liability, the Company uses an incremental borrowing rate. That rate represents the rate of interest that the Company would have to pay to borrow over a similar term and with similar security, the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment. When there are no financing transactions that can serve as a basis, the Company determines the incremental borrowing rate based on its credit risk, the lease term and other economic variables deriving from the lease contract's conditions and restrictions. In certain situations, the Company is assisted by an external valuation expert in determining the incremental borrowing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 2:- ACCOUNTING POLICIES (Cont.)

- Impairment of goodwill:

The Group reviews goodwill for impairment at least once a year. This requires management to make an estimate of the projected future cash flows from the continuing use of the cash-generating unit (or a group of cash-generating units) to which the goodwill is allocated and also to choose a suitable discount rate for those cash flows. The possible effects on the financial statements are the recording of impairment losses in profit or loss.

NOTE 3:- BUSINESS COMBINATION, SIGNIFICANT TRANSACTION AND SALE OF BUSINESS

- i. Sapiens

Acquisition of NCDC S.A ("NCDC"):

On December 4, 2023 (the Acquisition date), Sapiens completed the acquisition of 100% of the outstanding shares of NCDC, a polish entity that provides services which allows quick set up of insurance systems through automation and digitalization for P&C (Property and Casualty) insurance products. The acquisition of NCDC expands Sapiens's ability to support its software products mainly in the Nordic region.

The purchase price amounted to \$11,667 in total, of which, \$10,179 were paid in cash on the acquisition date, \$1,063 are deferred payments (\$638 will be paid after 12 months and \$425 will be paid after 18 months from the acquisition date) and up to \$425 will be paid by the end of March 2024 subject to net working capital adjustments. In addition, NCDC's three key employees have retention-based payments over two years (2024-2025) of up to \$523. These payments are subject to continued employment, and therefore were not included in the purchase price and will be expensed over the requested employment period.

Acquisition related costs amounted to \$325, and are presented under selling, marketing, general and administrative in the Company's consolidated statements of income. The results of NCDC's operations have been included in the consolidated financial statements from the Acquisition Date.

The following table summarizes the estimated fair values allocated to NCDC assets and assumed liabilities, with reference to the acquisition as of the acquisition date:

Current assets (including cash acquired of \$2,119)	\$	3,786
Customer relations		4,359
Deferred tax liabilities, net		(828)
Other long-term assets		2,439
Current liabilities		(918)
Other long-term liabilities		(324)
Goodwill		<u>3,153</u>
Total assets acquired net of acquired cash	\$	<u>11,667</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 3:- BUSINESS COMBINATION, SIGNIFICANT TRANSACTION AND SALE OF BUSINESS (Cont.)

The preliminary balances presented in these financial statements are subject to certain changes upon finalization of the purchase price once the net working capital adjustments are agreed with the seller.

The excess of purchase consideration over the fair value of net tangible and intangible assets acquired was recorded as goodwill. The goodwill from the acquisition of NCDC is primarily attributable to potential synergy with Sapiens, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

Pro forma results of operations related to this acquisition have not been presented because they are not material to the Company's consolidated statements of income.

ii. Magic Softwarea. Acquisition of K.M.T. (M.H.) Technologies Communication Computer Ltd. ("KMT")

On June 8, 2023, Magic Software acquired 60% of K.M.T. (M.H.) Technologies Communication Computer Ltd. ("KMT"). KMT delivers a broad spectrum of ICT products, cloud platform, VoIP, technical support and planning and construction of computing. KMT was acquired for a total consideration of NIS 55,039 thousand (\$14,875). Approximately NIS 60,000 thousand was paid upon closing of which a payment of Approximately 15,000 is related to a contingent consideration depending on the future operating results achieved by KMT referring to years 2023-2025. This contingent consideration was accounted for as a financial asset measured at its fair value as of the acquisition date of NIS 5 million (\$1.4 million). If the future operating results will not fully achieved, the seller will be required to return the whole or part of the contingent consideration.

The results of operations were included in the consolidated financial statements of the Company commencing June 30, 2023. Acquisition-related costs were immaterial. Unaudited pro forma condensed results of operations were not presented since they were not material to the Company's consolidated statement of profit or loss.

The following table summarizes the estimated fair values of the assets acquired and liabilities at the date of acquisition:

Net assets excluding \$632 cash acquired	\$ 197
Intangible assets	9,410
Deferred tax liabilities	(1,129)
Non-controlling interests	(3,644)
Goodwill	<u>9,410</u>
Total assets acquired, net of acquired cash	<u>\$ 14,244</u>

The goodwill from the acquisition of KMT is primarily attributable to potential synergy with Magic, as well as certain intangible assets that do not qualify for separate recognition. The goodwill is not deductible for income tax purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 3:- BUSINESS COMBINATION, SIGNIFICANT TRANSACTION AND SALE OF BUSINESS (Cont.)iii. Matrix ITa. Acquisition of Zebra Technologies Ltd. ("Zebra")

On January 1, 2023, Matrix IT completed the purchase of 70% of the Share Capital of Zebra Technologies Ltd. for NIS53,086 thousand (\$15,085, including equity) or NIS 38,034 thousand (\$10,768), net of acquired cash. 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 NIS 37.1 million (\$10,557) was attributed by Matrix IT to intangible assets (NIS 16.2 million or \$4,627, net of deferred tax) and goodwill (NIS 20.9 million or \$5,930).

The following table summarizes the provisional estimated fair values ⁽¹⁾ allocated to the Zebra acquired assets and assumed liabilities, with reference to the acquisition as of the acquisition date:

Net assets excluding cash acquired	\$ 3,163
Inventories	4,359
Property, plant and equipment	82
Intangible assets	5,973
Deferred taxes	(1,284)
Other long-term liabilities	(37)
Liabilities in respect of business combinations	(7,418)
Goodwill	5,930
	<u> </u>
Total assets acquired net of acquired cash	<u>\$ 10,768</u>

iv. Michpala. Acquisition of Emalogic Software Ltd. ("Emalogic")

On June 22, 2023, Michpal acquired 75% of the share capital of Emalogic, for a total consideration of NIS 23,762 thousand (approximately \$6,422) or NIS 14,409 thousand (approximately \$3,894) net of acquired cash. Michpal and the seller hold a mutual call and put options, respectively, for the remaining 25% share interest in Emalogic. The options can be exercised within 90 days after the approval of Emalogic's audited annual financial statements for 2026 or 2027. The fair value of the put option measured on the acquisition date amounted to NIS 6,133 thousand (approximately \$1,658). Emalogic, an Israeli-based company, is a software service provider that specializes in the development of mission-critical systems, starting from the characterization phase and through the maintenance phase. Emalogic holds extensive knowledge in the field of UX and UI allowing it to provide a complete end-to-end software solution. Emalogic operates in 4 main sectors - financial, automotive, freight and cloud. Acquisition-related costs were immaterial. Unaudited pro forma condensed results of operations were not presented since they were not material to the Company's consolidated statement of profit or loss. Emalogic's results of operations were included in the consolidated financial statements of the Company commencing June 30, 2023.

Acquisition related costs amounted to \$81, and are presented under selling, marketing, general and administrative in the Company's consolidated statements of income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 3:- BUSINESS COMBINATION, SIGNIFICANT TRANSACTION AND SALE OF BUSINESS (Cont.)

The following table summarizes the estimated fair values of the acquired assets and assumed liabilities, with reference to the acquisition as of the acquisition date:

Net liabilities excluding cash acquired	\$ (1,695)
Property, plant and equipment	161
Intangible assets	3,006
Deferred taxes	(692)
Other long-term liabilities	(313)
Liabilities in respect of business combinations	(443)
Non-controlling interests	(749)
Goodwill	4,619
	<u>4,619</u>
Total assets acquired net of acquired cash	<u>\$ 3,894</u>

NOTE 4:- CASH AND CASH EQUIVALENTS

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Balance nominated in USD	\$ 217,948	\$ 190,457
Balance nominated in NIS	157,725	282,050
Balance nominated in other currencies	76,273	71,835
	<u>\$ 451,946</u>	<u>\$ 544,342</u>

NOTE 5:- TRADE RECEIVABLES, NET

a. Trade receivables, net:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Open accounts	\$ 574,425	\$ 536,534
Checks receivable	14,695	15,260
Current maturities of long-term receivables	146,139	163,175
	<u>735,259</u>	<u>714,969</u>
Less - allowance for doubtful accounts(*)	14,251	12,242
Trade receivables, net	<u>\$ 721,008</u>	<u>\$ 702,727</u>

(*) Bad debt expense, net for the years ended December 31, 2023, 2022 and 2021 was \$4,532, \$3,022 and \$1,333 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 6:- PREPAID EXPESNES AND OTHER ACCOUNTS RECEIVAVABLE

The following table summarizes the composition of the Group's prepaid expenses and other accounts receivable:

	December 31,	
	2023	2022
Prepaid expenses and advances to suppliers	\$ 40,679	\$ 42,190
Government authorities	34,687	17,908
Employees	443	430
Related Parties (see Note 17)	256	281
Others	8,605	3,726
	<u>\$ 84,670</u>	<u>\$ 64,535</u>

NOTE 7:- LONG-TERM INVESTMENTS AND RECEIVABLES

	December 31,	
	2023	2022
Prepaid expenses and deposits	\$ 14,004	\$ 15,173
Investments in financial assets designated at fair value through other comprehensive income	19,737	9,870
Trade receivables and unbilled receivables	7,829	5,379
Financial assets designated at fair value through profit or loss	4,694	4,856
Dividend preference derivative in TSG (see Note 9)	3,000	3,000
Others	2,738	707
	<u>\$ 52,002</u>	<u>\$ 38,985</u>

NOTE 8:- FAIR VALUE MEASUREMENT

In determining fair value, the Group utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers counterparty credit risk in its assessment of fair value.

The Group's financial assets and liabilities measured at fair value on a recurring basis, including accrued interest components, consisted of the following types of instruments as of December 31, 2023 and 2022:

	Fair value measurements		
	December 31, 2023		
	Level 1	Level 3	Total
Assets:			
Financial assets at fair value through the other comprehensive income	\$ 19,450	\$ 287	\$ 19,737
Financial assets measured at fair value through profit or loss	-	4,620	4,620
Dividend preference derivative in TSG ⁽¹⁾	-	3,000	3,000
Assets in respect of business combinations	-	1,368	1,368
	<u>\$ 19,450</u>	<u>\$ 9,275</u>	<u>\$ 28,725</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 8:- FAIR VALUE MEASUREMENT (Cont.)

	Fair value measurements December 31, 2023	
	Level 3	Total
Liabilities:		
Put options of non-controlling interests	\$ 57,867	\$ 57,867
Contingent consideration in respect of business combination	\$ 10,576	\$ 10,576
	<u>\$ 68,443</u>	<u>\$ 68,443</u>

	Fair value measurements December 31, 2022			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at fair value through the other comprehensive income	\$ 9,408	\$ -	\$ 462	\$ 9,870
Financial assets measured at fair value through profit or loss	738	-	4,762	5,500
Dividend preference derivative in TSG ⁽¹⁾	-	-	3,000	3,000
Foreign currency derivative contracts	-	109	-	109
	<u>\$ 10,146</u>	<u>\$ 109</u>	<u>\$ 8,224</u>	<u>\$ 18,479</u>

	Fair value measurements December 31, 2022	
	Level 3	Total
Liabilities:		
Put options of non-controlling interests	\$ 72,188	\$ 72,188
Contingent consideration in respect of business combination	30,635	30,635
	<u>\$ 102,823</u>	<u>\$ 102,823</u>

⁽¹⁾ The fair value of dividend preference derivative in TSG was estimated using the Monte-Carlo simulation technique.

The Group believes that the carrying amount of cash, short-term deposits, trade receivables, trade payables, overdrafts and other current liabilities approximate their fair value due to the short-term maturities of these instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 8:- FAIR VALUE MEASUREMENT (Cont.)

Changes in financial assets and liabilities classified in Level 3:

	Financial assets measured at fair value	Financial Liabilities measured at fair value
Balance as of January 1, 2022:	\$ 2,023	\$ 95,773
Increase due to acquisitions	462	19,791
Fair value measured for the first time	4,762	7,086
Change in fair value measurements	977	629
Deduction of the contingent consideration	-	(17,171)
Other	-	(3,285)
Balance as of December 31, 2022	<u>\$ 8,224</u>	<u>\$ 102,823</u>
Increase due to acquisitions	1,368	8,039
Fair value measured for the first time	-	1,594
Change in fair value measurements	(175)	(893)
Deduction of the contingent consideration	-	(39,837)
Other	(142)	(3,283)
Balance as of December 31, 2023	<u>\$ 9,275</u>	<u>\$ 68,443</u>

NOTE 9:- INVESTMENTS IN COMPANIES ACCOUNTED FOR AT EQUITY

The following table summarizes the Group's investments in companies accounted for at equity:

	December 31,	
	2023	2022
TSG (Joint venture)	\$ 18,998	\$ 19,459
Other	1,798	1,287
	<u>\$ 20,796</u>	<u>\$ 20,746</u>

Investment in TSG

The Company holds directly a 50% share interest in the issued and outstanding share capital of TSG, a joint venture engaged in the fields of command-and-control systems, intelligence, homeland security and cyber security. The Company's investment in TSG is reflected in the consolidated financial statements using the equity method of accounting. At the acquisition date the Company attributed an amount of \$2,140 to a separate component of dividend preference derivative. The dividend preference derivative is measured at fair value through profit or loss and is presented in the consolidated statements of financial position under long-term investments and receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 9:- INVESTMENTS IN COMPANIES ACCOUNTED FOR AT EQUITY (Cont.)

a. The following table summarizes the balances related to the Company's investment in TSG in the consolidated statements of financial position:

	December 31,	
	2023	2022
<u>Investment in companies accounted for at equity method</u>		
Shares	\$ 11,073	\$ 11,291
Capital note	7,925	8,168
	<u>\$ 18,998</u>	<u>\$ 19,459</u>
<u>Long-term investments and receivables</u>		
Dividend preference derivative at fair value through profit or loss	\$ 3,000	\$ 3,000

b. The following table summarizes the changes in the fair value of TSG's dividend preference derivative:

	December 31,	
	2023	2022
Opening balance	\$ 3,000	\$ 2,023
Increase in fair value recognized in profit or loss	85	1,221
Currency exchange rate in other comprehensive income (loss)	(85)	(244)
Closing balance	<u>\$ 3,000</u>	<u>\$ 3,000</u>

c. The following table summarizes the changes in the carrying amount of the Company's investment in TSG:

January 1, 2021	\$ 27,165
Company's share of profit	340
Company's share of other comprehensive income	128
December 31, 2021	<u>\$ 27,633</u>
Company's share of profit	(2,027)
Company's share of other comprehensive income (loss)	(3,053)
Adjustments arising from translating financial statements from functional currency to presentation currency	(3,094)
December 31, 2022	<u>\$ 19,459</u>
Company's share of profit	686
Company's share of other comprehensive income (loss)	(575)
Adjustments arising from translating financial statements from functional currency to presentation currency	(572)
December 31, 2023	<u>\$ 18,998</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 9:- INVESTMENTS IN COMPANIES ACCOUNTED FOR AT EQUITY (Cont.)

d. Summarized financial data of joint venture:

(i) Summarized statements of financial position of TSG as of December 31, 2023 and 2022:

	December 31,	
	2023	2022
Current assets	\$ 52,354	\$ 67,254
Non-current assets	70,385	65,627
Current liabilities	(27,394)	(33,527)
Non-current liabilities	(64,789)	(69,534)
Net assets	\$ 30,556	\$ 29,820
Accumulated cost of share-based payment	(1,795)	(1,705)
Total equity attributed to shareholders	<u>\$ 28,761</u>	<u>\$ 28,115</u>
	50%	50%
Share of equity in TSG	14,381	14,058
Excess of fair value over carrying amount	4,617	5,401
Total investment carrying amount	<u>\$ 18,998</u>	<u>\$ 19,459</u>

(ii) Summarized operating results of TSG for the years ended December 31, 2023, 2022 and 2021:

	Year ended December 31,		
	2023	2022	2021
Revenues	\$ 79,449	\$ 69,714	\$ 77,035
Net income (loss)	2,587	(2,780)	2,104
Other comprehensive income (loss)	1,236	(6,107)	255
Total comprehensive income (loss)	<u>\$ 3,823</u>	<u>\$ (8,887)</u>	<u>\$ 2,359</u>
Company's share in TSG	50%	50%	50%
	1,912	(4,444)	1,180
Amortization of excess cost of intangible assets net of tax	(608)	(637)	(712)
Company's share of total comprehensive income (loss)	<u>\$ 1,305</u>	<u>\$ (5,081)</u>	<u>\$ 468</u>
Company's share of other comprehensive income (loss)	678	(3,053)	128
Company's share of profit (loss)	686	(2,027)	340
	<u>\$ 1,364</u>	<u>\$ (5,081)</u>	<u>\$ 468</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 10:- PROPERTY, PLANTS AND EQUIPMENT, NET

a. Property, plants and equipment, net, are comprised of the following as of the below dates:

<u>Cost:</u>	<u>Computers, furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Software</u>	<u>Total</u>
Balance at January 1, 2023	\$ 139,977	\$ 42,816	\$ 7,497	\$ 2,419	\$ 192,709
Initially consolidated company	3,215	2,051	12	25	5,303
Purchases	12,402	3,160	278	463	16,303
Disposals	(15,564)	(3,746)	(1,990)	(110)	(21,410)
Exchange rate differences from translation of foreign operations	(2,970)	(1,149)	(235)	(47)	(4,401)
Balance at December 31, 2023	<u>\$ 137,060</u>	<u>\$ 43,132</u>	<u>\$ 5,562</u>	<u>\$ 2,750</u>	<u>\$ 188,504</u>
<u>Accumulated depreciation:</u>					
Balance at January 1, 2023	\$ 105,874	\$ 24,762	\$ 4,844	\$ 2,258	\$ 137,738
Initially consolidated company	2,002	709	3	21	2,735
Depreciation	13,500	4,223	693	97	18,513
Disposals	(15,224)	(3,490)	(1,488)	(110)	(20,312)
Loss of Control					
Exchange rate differences from translation of foreign operations	(2,201)	(669)	(172)	(59)	(3,101)
Balance at December 31, 2023	<u>\$ 103,951</u>	<u>\$ 25,535</u>	<u>\$ 3,880</u>	<u>\$ 2,207</u>	<u>\$ 135,573</u>
Depreciated cost at December 31, 2023	<u>\$ 33,109</u>	<u>\$ 17,597</u>	<u>\$ 1,682</u>	<u>\$ 543</u>	<u>\$ 52,931</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 10:- PROPERTY, PLANTS AND EQUIPMENT, NET (Cont.)

	<u>Computers, furniture and equipment</u>	<u>Leasehold improvements</u>	<u>Motor vehicles</u>	<u>Software</u>	<u>Total</u>
Cost:					
Balance at January 1, 2022	\$ 145,333	\$ 41,911	\$ 8,305	\$ 2,546	\$ 198,095
Entrance to consolidation	4,024	453	351	111	4,939
Purchases	17,298	4,675	368	114	22,455
Disposals	(10,735)	(418)	(560)	(25)	(11,738)
Loss of Control	(684)	(1,337)	-	-	(2,021)
Exchange rate differences from translation of foreign operations	(15,259)	(2,468)	(967)	(327)	(19,021)
Balance at December 31, 2022	<u>\$ 139,977</u>	<u>\$ 42,816</u>	<u>\$ 7,497</u>	<u>\$ 2,419</u>	<u>\$ 192,709</u>
Accumulated depreciation:					
Balance at January 1, 2022	\$ 108,762	\$ 25,444	\$ 4,673	\$ 2,330	\$ 141,209
Entrance to consolidation	2,803	388	219	107	3,517
Depreciation	14,709	2,834	909	75	18,527
Disposals	(10,287)	(242)	(384)	(23)	(10,936)
Loss of Control	(308)	(971)	-	-	(1,279)
Exchange rate differences from translation of foreign operations	(9,805)	(2,691)	(573)	(231)	(13,300)
Balance at December 31, 2022	<u>\$ 105,874</u>	<u>\$ 24,762</u>	<u>\$ 4,844</u>	<u>\$ 2,258</u>	<u>\$ 137,738</u>
Depreciated cost at December 31, 2022	<u>\$ 34,103</u>	<u>\$ 18,054</u>	<u>\$ 2,653</u>	<u>\$ 161</u>	<u>\$ 54,971</u>

b. Depreciation expenses totaled \$18,513, \$18,527 and \$20,468 for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 11:- INTANGIBLE ASSETS, NET

a. Intangible assets, net, are comprised of the following as of the below dates:

	<u>Customer relationship</u>	<u>Capitalized Software costs</u>	<u>Acquired technology</u>	<u>Other</u>	<u>Total</u>
Cost:					
Balance at January 1, 2023	\$ 309,979	\$ 283,038	\$ 100,337	\$ 12,270	\$ 705,624
Entrance to consolidation	20,902	-	-	1,706	22,608
Purchases	-	14,550	962	-	15,512
Disposals	-	(21)	-	-	(21)
Exchange rate differences from translation of foreign operations	(3,779)	(4,699)	(324)	(361)	(9,163)
Balance at December 31, 2023	<u>\$ 327,102</u>	<u>\$ 292,868</u>	<u>\$ 100,975</u>	<u>\$ 13,615</u>	<u>\$ 734,560</u>
Accumulated depreciation:					
Balance at January 1, 2023	\$ 169,567	\$ 237,253	\$ 71,843	\$ 4,235	\$ 482,898
Depreciation	27,747	11,634	10,227	1,657	51,265
Disposals	-	(21)	-	-	(21)
Exchange rate differences from translation of foreign operations	(2,400)	(3,892)	(123)	(95)	(6,510)
Balance at December 31, 2023	<u>\$ 194,914</u>	<u>\$ 244,974</u>	<u>\$ 81,947</u>	<u>\$ 5,797</u>	<u>\$ 527,632</u>
Depreciated cost at December 31, 2023	<u>\$ 132,188</u>	<u>\$ 47,894</u>	<u>\$ 19,028</u>	<u>\$ 7,818</u>	<u>\$ 206,928</u>
	<u>Customer relationship</u>	<u>Capitalized Software costs</u>	<u>Acquired technology</u>	<u>Other</u>	<u>Total</u>
Cost:					
Balance at January 1, 2022	\$ 307,256	\$ 289,506	\$ 97,395	\$ 12,906	\$ 707,063
Entrance to consolidation	26,643	-	6,152	843	33,638
Purchases	-	14,732	1,181	-	15,913
Disposals	-	(415)	(1,204)	-	(1,619)
Exchange rate differences from translation of foreign operations	(23,920)	(20,785)	(3,187)	(1,479)	(49,371)
Balance at December 31, 2022	<u>\$ 309,979</u>	<u>\$ 283,038</u>	<u>\$ 100,337</u>	<u>\$ 12,270</u>	<u>\$ 705,624</u>
Accumulated depreciation:					
Balance at January 1, 2022	\$ 154,112	\$ 243,264	\$ 64,381	\$ 3,370	\$ 465,127
Depreciation	26,668	11,562	9,986	1,285	49,501
Disposals	-	(416)	(1,205)	-	(1,621)
Exchange rate differences from translation of foreign operations	(11,213)	(17,157)	(1,319)	(420)	(30,109)
Balance at December 31, 2022	<u>\$ 169,567</u>	<u>\$ 237,253</u>	<u>\$ 71,843</u>	<u>\$ 4,235</u>	<u>\$ 482,898</u>
Depreciated cost at December 31, 2022	<u>\$ 140,412</u>	<u>\$ 45,785</u>	<u>\$ 28,494</u>	<u>\$ 8,035</u>	<u>\$ 222,726</u>

b. Amortization expenses totaled \$51,265, \$49,501, and \$58,611 for the years ended December 31, 2023, 2022 and 2021, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 12:- GOODWILL

The following table summarizes the changes in the carrying amount of goodwill for the years ended December 31, 2023 and 2022:

	December 31,	
	2023	2022
Opening balance	\$ 926,161	\$ 932,854
Acquisition of subsidiaries	23,112	52,651
Classifications	(2,672)	(1,502)
Foreign currency translation adjustments	(10,020)	(57,842)
Closing balance	<u>\$ 936,581</u>	<u>\$ 926,161</u>

The Group performed annual impairment tests as of December 31, 2023, 2022 and 2021 and did not identify any impairment losses (see Note 2(15)). For more information regarding allocation of goodwill to each cash-generating unit see Note 25(b).

The perpetual growth rates and discount rates (corresponding to the weighted average cost of capital – “WACC”) applied for impairment testing purposes in 2023 and 2022 were as follows:

	2023		2022	
	Pre-tax discount rate	Growth rate	Pre-tax discount rate	Growth rate
Matrix IT (1)	10.4%-10.7%	3%	9.2%-10.1%	3%
Sapiens (2)	11%	3%	11%	3%
Magic Software (3)	11.5%	3%	11%	3%
Other consolidated subsidiaries (4)				

- (1) The goodwill allocated to the operating segment Matrix IT is mainly related to two groups of cash-generating units. Cash flows are discounted using weighted pre-tax discount rates that range between 10.4% to 10.7% and a fixed growth rate of 3% in 2023 (2022 - weighted pre-tax discount rates that range between 9.2% to 10.1% and fixed growth rates of 3%). The carrying amount of goodwill allocated to the other groups of cash-generating units included in Matrix IT is immaterial.
- (2) The goodwill allocated to the operating segment Sapiens is mainly related to two groups of cash-generating units. Cash flows are discounted using a weighted pre-tax discount rate of 11% and a fixed growth rate of 3% in 2023 and 2022. The carrying amount of goodwill allocated to the other groups of cash-generating units included in Sapiens is immaterial.
- (3) The goodwill allocated to the operating segment Magic Software is related to four groups of cash-generating units. Cash flows are discounted using weighted pre-tax discount rates of 11.5% and a fixed growth rate of 3% in 2023 (2022 - weighted pre-tax discount rates of 11% and fixed growth rates of 3%).
- (4) Goodwill is allocated across multiple groups of cash-generating units. The carrying amount of goodwill allocated to each group of cash-generating units is immaterial. The Group performed sensitivity analyses regarding the main assumptions in the impairment tests. No impairment of the goodwill tested would be recognized in the event of a reasonably possible change in the assumptions used in 2023 (the same was true for 2022). The Group performed annual impairment tests as of December 31, 2023, 2022 and 2021 and did not identify any impairment losses

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 13:- SHORT TERM LOANS FROM BANKS AND OTHERS

	December 31, 2023 Interest rate (%)	Currency	December 31,	
			2023	2022
Current maturities of long-term loans from banks and other financial institutions	1.4 - Prime + 1.5	NIS	\$ 66,356	\$ 78,883
Commercial securities not listed	Prime -1	NIS	55,142	56,834
Short-term bank loans and credit line	3.4 - 6.8	NIS and USD	9,533	13,168
Current maturities of long-term loans from banks	7.5 – 8.1	NIS Linked to USD	13,208	8,908
Short-term interest on long-term loans from banks and other financial institutions	3.4 – 8.1	NIS and USD	1,734	89
			<u>\$ 145,973</u>	<u>\$ 157,882</u>

NOTE 14:- OTHER ACCOUNTS PAYABLE

Other accounts payable are comprised of the following as of the below dates:

	December 31,	
	2023	2022
Government institutions	\$ 42,102	\$ 43,955
Accrued expenses and other current liabilities	31,022	42,385
	<u>\$ 73,124</u>	<u>\$ 86,340</u>

NOTE 15:- LONG TERM LOANS FROM BANKS AND OTHERS

a. Long term liabilities to banks and others are comprised of the following as of the below dates:

Interest rate %	Currency	Long-term liabilities	Current maturities	Long-term liabilities net of current maturities	long-term liabilities net of current maturities
1.4 - Prime + 1.5	NIS (Unlinked)	\$ 122,951	\$ 66,356	\$ 56,595	\$ 88,532
7.5-8.1	USD (Unlinked)	47,500	13,208	34,292	27,342
		<u>\$ 170,451</u>	<u>\$ 79,564</u>	<u>\$ 90,887</u>	<u>\$ 115,874</u>

b. Maturity dates:

	December 31,	
	2023	2022
First year (current maturities)	\$ 79,564	\$ 87,791
Second year	47,859	67,956
Third year	21,864	32,430
Fourth year	17,281	9,998
Fifth year and thereafter	3,883	5,490
	<u>\$ 170,451</u>	<u>\$ 203,665</u>

Details of liens, guarantees and credit facilities are described in Note 21(b)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- DEBENTURES

The Group's liabilities under debentures are attributable to debentures issued by Formula, Sapiens and Matrix. The debentures are all listed for trading on the Tel-Aviv Stock Exchange.

a. Debentures are comprised of the following as of the below dates:

	Effective Interest rate %	Currency	Par value in issuance currency (thousand)	Par Value	Unamortized debt premium (discount) and issuance costs, net	Current maturities December 31, 2023	Total long-term debentures, net of current maturities	Short-term accrued interest	Total short-term and long-term debentures
Formula's Series A Secured Debentures (2.8%)	2.4	NIS (Unlinked)	NIS 34,211	\$ 9,432	\$ 22	\$ 9,432	\$ -	\$ 154	\$ 9,586
Formula's Series C Secured Debentures (2.3%)	2.7	NIS (Unlinked)	NIS 412,264	\$ 113,665	(932)	22,327	90,405	213	112,945
Sapiens' Series B Debentures (3.37%)	3.3	NIS (Linked to fix rate of USD)	NIS 210,000	\$ 59,389	(50)	19,796	39,543	-	59,339
Matrix IT' Series B Debentures (4.1%)	4.5	NIS (Unlinked)	NIS 441,656	\$ 121,769	(1,450)	18,726	101,593	2,237	122,556
				\$ 304,255	\$ (2,410)	\$ 70,281	\$ 231,541	\$ 2,604	\$ 304,426
	Effective Interest rate %	Currency	Par value in issuance currency (thousand)	Par Value	Unamortized debt premium (discount) and issuance costs, net	Current maturities December 31, 2022	Total long-term debentures, net of current maturities	Short-term accrued interest	Total short-term and long-term debentures
Formula's Series A Secured Debentures (2.8%)	2.4	NIS (Unlinked)	NIS 68,422	\$ 19,444	\$ 85	\$ 9,722	\$ 9,807	\$ -	\$ 19,529
Formula's Series C Secured Debentures (2.3%)	2.7	NIS (Unlinked)	NIS 493,244	\$ 140,166	(1,477)	23,012	115,677	265	138,954
Sapiens' Series B Debentures (3.37%)	3.3	NIS (Linked to fix rate of USD)	NIS 280,000	\$ 79,186	(114)	19,796	59,276	1,337	80,409
Matrix IT' Series B Debentures (4.1%)	4.5	NIS (Unlinked)	NIS 475,615	\$ 135,156	(1,343)	9,650	124,163	1,220	135,033
				\$ 373,952	\$ (2,849)	\$ 62,180	\$ 308,923	\$ 2,822	\$ 373,925

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 16:- DEBENTURES (Cont.)

During the years ended December 31, 2023, 2022 and 2021, the Group recorded \$7,450, \$7,533 and \$7,056, respectively, of interest expenses, and \$667, \$158 and (\$109), respectively, of amortization of debt premium, discount and issuance costs, net in respect of the Group's debentures.

b. Scheduled aggregate principal annual payments of the debentures:

	Repayment amount
2024	\$ 70,281
2025	84,191
2026	84,192
2027	18,726
2028	46,865
	<u>\$ 304,255</u>

c. Formula's debentures

i) Formula Systems Series A Secured Debentures

On September 16, 2015, Formula issued Formula Systems Series A Secured Debentures in an aggregate principal amount of NIS 102,260 thousand (approximately \$26,295), at a purchase price equal to 100% of their par value, payable in eight equal annual installments on July 2nd of each of the years 2017 through 2024. The principal amount outstanding under the Formula Systems Series A Secured Debentures bears interest at a fixed rate of 2.8% per annum (subject to adjustments based on the credit rating of the debentures), payable on July 2nd and January 2nd of each of the years 2016 through 2024. Issuance costs, including early commitment commission of approximately NIS 1,246 thousand (approximately \$320), were allocated to the Formula Systems Series A Secured Debentures and are amortized as financial expenses over the term of the Series A Secured Debentures due in 2024.

On January 31, 2018, Formula issued additional Formula Systems Series A Secured Debentures in an aggregate principal amount of NIS 150,000 thousand (approximately \$44,053) through a private placement to qualified investors in Israel. The gross proceeds received by Formula from the issuance of Formula Systems Series A Secured Debentures in January 2018 were NIS 155,205 thousand (approximately \$45,581), out of which NIS 336 thousand was attributed to interest payable (approximately \$99). Debt premium of NIS 4,869 thousand (approximately \$1,430) net of issuance costs of NIS 782 thousand (approximately \$225) was allocated to the Formula Systems Series A Secured Debentures and is amortized as financial income over the remaining term of the Formula Systems Series A Secured Debentures due in 2024.

The Formula Systems Series A Secured Debentures issued in September 2015, together with the Formula Systems Series A Secured Debentures sold in the private placement, form one single series with identical terms and conditions.

The Series A Secured Debentures are denominated in New Israeli Shekels not linked to any currency or index, and are non-convertible. The Formula Systems Series A Secured Debentures are secured with collateral consisting of shares of Matrix IT, Magic Software and Sapiens (see Note 21a).

The Formula Systems Series A Secured Debentures are listed for trading on the Tel-Aviv Stock Exchange. As of December 31, 2023 and 2022, the fair value of Formula's Series A Secured Debentures, based on the quoted market price on the Tel-Aviv Stock Exchange, was approximately \$9,338 and \$19,202, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 16:- DEBENTURES (Cont.)ii) Formula Systems Series C Secured Debentures

On March 31, 2019, Formula issued Formula Systems Series C Secured Debentures in an aggregate principal amount of NIS 300,000 thousand (approximately \$82,600), at a purchase price equal to 100% of their par value. The principal due under the Series C Secured Debentures is payable in five annual installments of NIS 33,000 thousand on December 1 of each of the years 2020 through 2024 and two annual installments of NIS 67,500 thousand on December 1 of each of the years 2025 and 2026. The outstanding principal amount under the Formula Systems Series C Secured Debentures bears interest at a fixed rate of 2.29% per annum (subject to adjustments based on the credit rating of the debentures), payable on December 1st and June 1st of each of the years 2019 through 2026. Issuance costs, including an early commitment commission of approximately NIS 3,355 thousand (approximately \$924) were allocated to Formula Systems Series C Secured Debentures and are amortized as financial expenses over the term of Formula Systems Series C Secured Debentures due in 2026.

On April 12, 2021, Formula issued additional Formula Systems Series C Secured Debentures in an aggregate principal amount of NIS 160,000 thousand (approximately \$48,617) through a private placement to qualified investors in Israel. The gross proceeds received by Formula for the issuance of Formula Systems Series C Secured Debentures in April 2021 were NIS 165,920 thousand (approximately \$50,524), out of which NIS 1,329 thousand was attributed to interest payable (approximately \$405). Debt premium of NIS 4,591 thousand (approximately \$1,398) net of issuance costs of NIS 752 thousand (approximately \$229) was allocated to the Formula Systems Series C Secured Debentures and is amortized as financial income over the remaining term of the Formula Systems Series A Secured Debentures due in 2026.

On August 30, 2022, Formula issued additional Formula Systems Series C Secured Debentures in an aggregate principal amount of NIS 200,000 thousand (approximately \$60,514) through a private placement to qualified investors in Israel. The gross proceeds received by Formula for the issuance of Formula Systems Series C Secured Debentures in August 2022 were NIS 195,000 thousand (approximately \$59,002), out of which NIS 1,126 thousand was attributed to interest payable (approximately \$341). Debt deficit of NIS 7,076 thousand (approximately \$2,141) including issuance costs of NIS 950 thousand (approximately \$287) were allocated to the Formula Systems Series C Secured Debentures and are amortized as financial expenses over the remaining term of the Formula Systems Series C Secured Debentures due in 2026.

The Formula Systems Series C Secured Debentures issued in March 2019, together with the Formula Systems Series C Secured Debentures sold in April 2021 and in August 2022 in private placements, form one single series with identical terms and conditions.

The Formula Systems Series C Secured Debentures are denominated in New Israeli Shekels and are not linked to any currency or index and are non-convertible. The Formula Systems Series C Secured Debentures are secured with collateral consisting of shares of Matrix IT, Magic Software and Sapiens (see Note 21a).

The Series C Secured Debentures are listed for trading on the Tel-Aviv Stock Exchange. As of December 31, 2023 and 2022, the fair value of Formula's Series C Secured Debentures, based on the quoted market price on the Tel-Aviv Stock Exchange, was approximately \$109,494 and \$133,046, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data****NOTE 16:- DEBENTURES (Cont.)**

The offerings of Formula's debentures were made only in Israel and not to U.S. persons (as defined in Rule 902(k) under the Securities Act of 1933, as amended (the "Securities Act")), in an overseas directed offering (as defined in Rule 903(b)(i)(ii) under the Securities Act) and were exempt from registration under the Securities Act pursuant to the exemption provided by Regulation S thereunder.

The sale of Formula debentures was not registered under the Securities Act, and Formula debentures may not be offered or sold in the United States and/or to U.S. persons without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

In accordance with the indenture for the Formula Systems Series A Secured Debentures and the Formula Systems Series C Secured Debentures, Formula has undertaken to maintain a number of conditions and limitations on the manner in which it operates its business, including limitations on its ability to undergo a change of control, distribute dividends, incur a floating charge on its assets, or undergo an asset sale or other change that results in a fundamental change in its operations, and to meet certain financial covenants (see Notes 21a and 21c(1)(i)).

d. Sapiens' Series B Debentures

On September 16, 2017, Sapiens issued its unsecured Series B Debentures in an aggregate principal amount of NIS 280,000 thousand (approximately \$79,186), linked to the US dollar and payable in eight equal annual payments of \$9,898 on January 1st of each of the years 2019 through 2026. The outstanding principal amount of Sapiens' Series B Debentures bears a fixed interest rate of 3.37% per annum (which may be adjusted based on changes to the credit rating of the debentures), payable on January 1st and July 1st of each of the years 2018 through 2025, with one final interest payment due on January 1, 2026. Debt discount, and issuance costs were approximately \$956, allocated to Sapiens' Series B Debentures discount and are amortized as financial expenses over the term of the Series B Debentures due in 2026.

On June 8, 2020, Sapiens issued additional Sapiens' Series B Debentures in an aggregate principal amount of NIS 210,000 thousand (approximately \$60,362) through a public offering in Israel. The gross proceeds received from the issuance of Sapiens' Series B Debentures in June 2020 were NIS 210,840 thousand (approximately \$60,603), out of which approximately NIS 3,006 thousand was attributed to interest payable (approximately \$864). Debt discount of NIS 2,166 thousand (approximately \$623) and issuance costs of NIS 2,326 thousand (approximately \$669) were allocated to Sapiens' Series B Debentures and are amortized as financial expenses over the remaining term of the Sapiens Series B Debentures due in 2026. Sapiens' Series B Debentures issued in September 2017 together with the Sapiens' Series B Debentures issued in June 2020, form one single series with identical terms and conditions. Sapiens' Series B Debentures are linked to the US Dollar, unsecured and non-convertible. Sapiens' Series B Debentures are listed for trading on the TASE. As of December 31, 2023 and 2022, the fair value of Sapiens' Series B Debentures, based on the quoted market price on the Tel-Aviv Stock Exchange, was approximately \$57,667 and \$75,192, respectively.

The offerings of Sapiens' debentures were made only in Israel and not to U.S. persons (as defined in Rule 902(k) under the Securities Act of 1933, as amended (the "Securities Act")), in an overseas directed offering (as defined in Rule 903(b)(i)(ii) under the Securities Act) and was exempt from registration under the Securities Act pursuant to the exemption provided by Regulation S thereunder.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 16:- DEBENTURES (Cont.)

The sale of Sapiens debentures was not registered under the Securities Act, and the Sapiens debentures may not be offered or sold in the United States and/or to U.S. persons without registration under the Securities Act or an applicable exemption from the registration requirements of the Securities Act.

In accordance with the indenture for the Sapiens Series B Debentures, Sapiens has undertaken to comply with a number of conditions and limitations on the manner in which it operates its business, including limitations on its ability to undergo a change of control, distribute dividends, incur a floating charge on Sapiens' assets, or undergo an asset sale or other change that results in a fundamental change in Sapiens' operations and to meet certain financial covenants (see Note 21c(3)(iii)).

e. Matrix IT Series B Debentures

On September 18, 2022, Matrix IT issued the Matrix IT Series B Debentures in an aggregate principal amount of NIS 295,249 thousand (approximately \$87,872), at a purchase price equal to 100% of their par value. The principal due under the Matrix IT Series B Debentures is payable in thirteen (13) semi-annual installments each equal to approximately 7.14% of the aggregate principal amount (or approximately NIS 21,081 thousand) on February 1 and on August 1 of each of the years 2023 through 2029 with the last payment equal to 7.18% of the aggregate principal amount (or approximately NIS 21,196 thousand) paid on February 1, 2030. The outstanding principal amount under the Matrix IT Series B Debentures bears interest at a fixed rate of 4.1% per annum (subject to adjustments based on the credit rating of the debentures), payable on February 1st and August 1st of each of the years 2023, through 2030. Issuance costs including an early commitment commission of approximately NIS 2,158 thousand (approximately \$642) were allocated to the Matrix IT Series B Debentures and are amortized as financial expenses over the term of the Matrix IT Series B Debentures due in 2030.

On December 4, 2022, Matrix IT issued additional Matrix IT Series B Debentures in an aggregate principal amount of NIS 180,366 thousand (approximately \$53,680) through a private placement to qualified investors in Israel. The gross proceeds received by Matrix IT for the issuance of Matrix IT Series B Debentures in December 2022 were NIS 178,385 thousand (approximately \$53,107), out of which NIS 1,582 thousand was attributed to interest payable (approximately \$471). Debt deficit of NIS 1,981 thousand (approximately \$590) including issuance costs of NIS 399 thousand (approximately \$119) were allocated to the Matrix IT Series B Debentures and are amortized as financial expenses over the remaining term of the Matrix IT Series B Debentures due in 2030.

The Matrix IT Series B Debentures issued in September 2022, together with the Matrix IT Series B Debentures sold in December 2022 in a private placement, form one single series with identical terms and conditions.

As of December 31, 2023 and 2022, the fair value of Matrix IT's Series B Secured Debentures, based on the quoted market price on the Tel-Aviv Stock Exchange, was approximately \$122,938 and \$135,156, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 17:- RELATED PARTIES TRANSACTIONS

a) Transactions with Asseco and affiliated companies

During the years ended December 31, 2023, 2022 and 2021, Asseco provided back-office services, professional services and fixed assets to Sapiens' wholly owned subsidiary, Sapiens Poland, in amounts totaling approximately \$165, \$181 and \$197, respectively.

During the years ended December 31, 2023, 2022 and 2021, Sapiens Poland performed services as a sub-contractor on behalf of Asseco for clients of Asseco in total amounts of approximately \$3,500, \$2,900 and \$3,200, respectively. For historic reasons, Asseco issues invoices to those clients and then Sapiens in turn invoices Asseco on a back-to-back basis (with no margin to Asseco).

As of December 31, 2023 and 2022 the Group had trade payable balances due from its transactions with Asseco, as detailed above, in amounts of \$1,233 and \$2,927, respectively. As of December 31, 2023 and 2022, the Group had trade receivables balances due from its transactions with Asseco, as detailed above, in amounts of approximately \$1,008 and \$1,149, respectively.

b) Fees paid for board services in affiliates

Sapiens paid Formula director fees for the years ended December 31, 2023, 2022 and 2021, of approximately \$28, \$29 and \$27, respectively, in respect of Mr. Guy Bernstein, Sapiens' Chairman and Formula's chief executive officer.

Matrix IT paid Formula director fees for the years ended December 31, 2023, 2022 and 2021, of approximately \$27, \$33 and \$37, respectively, in respect of Mr. Guy Bernstein, Matrix IT's Chairman and Formula's chief executive officer.

c) Compensation of key officers of the Company

The following amounts disclosed in the table are recognized as an expense during the reporting period related to officers and directors of the Company:

	Year ended December 31,	
	2023	2022
Short-term employee benefits	\$ 4,204	\$ 4,665
Share-based compensation	7,197	8,104
	<u>\$ 11,401</u>	<u>\$ 12,769</u>

d) Back-office services

During the years ended December 31, 2023, 2022 and 2021, Magic Software provided back-office services to Formula in amounts totaling approximately \$224, \$240 and \$160, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 17:- RELATED PARTIES TRANSACTIONS (Cont.)

e) Other Transactions

The Group's subsidiaries and affiliates engage from time to time with each other in non-material transactions, in the ordinary course of business, where the amounts involved, and the nature of the transactions, are not material for either of the parties. The Group believes that these transactions are made on an arms' length basis upon terms and conditions no less favorable to the Group, its subsidiaries and affiliates, as it could obtain from unaffiliated third parties. If Group engages with its subsidiaries and affiliates in transactions which are not in the ordinary course of business, the Group receives the approvals required under the Companies Law. These approvals include audit committee approval, board approval and, in certain circumstances, shareholder approval.

NOTE 18:- LEASES

The Group leases substantially all of its office space and vehicles under operating leases. The Group's leases have original lease periods expiring between 2024 and 2036. Some leases include one or more options to renew. The Group does not assume renewals in its determination of the lease term unless the renewals are deemed to be reasonably certain at lease commencement. Lease payments included in the measurement of the lease liability comprise the following: the fixed non-cancellable lease payments, payments for optional renewal periods where it is reasonably certain the renewal period will be exercised, and payments for early termination options unless it is reasonably certain the lease will not be terminated early.

Under IFRS 16, all leases with durations greater than 12 months, including non-cancellable operating leases, are now recognized on the statement of financial position. The aggregated present value of lease agreements is recorded as a long-term asset titled operating lease right-of-use assets.

The corresponding lease liabilities are classified between operating lease liabilities which are current and long-term.

Maturity analysis of undiscounted future lease payments receivable for operating leases:

2024	\$ 45,871
2025	36,524
2026	13,448
2027	12,477
2028	12,419
2029 and thereafter	25,601
Total undiscounted cash flows	\$ 146,340
Less imputed interest	(17,637)
Present value of lease liabilities	\$ 128,703

a. Information on leases:

	Year ended December 31,	
	2023	2022
Interest expense on lease liabilities	\$ 7,195	\$ 4,822
Total cash outflow for leases	\$ 55,064	\$ 49,702

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 18:- LEASES (Cont.)

b. Disclosures in respect of right-of-use assets:

	Land and buildings	Motor vehicles	Total
Cost:			
Balance as of January 1, 2023	\$ 179,617	\$ 50,252	\$ 229,869
Additions during the year:			
New leases	38,376	23,092	61,468
Adjustments for indexation	1,573	418	1,991
Adjustments arising from translating financial statements of foreign operations	(2,111)	(814)	(2,925)
Modification of leases	(3,590)	66	(3,524)
Acquisition of subsidiaries	265	-	265
Disposals during the year:			
Termination of leases	(18,323)	(11,182)	(29,505)
Balance as of December 31, 2023	<u>\$ 195,807</u>	<u>\$ 61,832</u>	<u>\$ 257,639</u>
Accumulated depreciation:			
Balance as of January 1, 2023	\$ 88,429	\$ 24,600	\$ 113,029
Additions during the year:			
Depreciation	34,135	17,919	52,054
Adjustments arising from translating financial statements of foreign operations	24	(7)	17
Disposals during the year:			
Termination of leases	(17,874)	(10,238)	(28,112)
Balance as of December 31, 2023	<u>104,714</u>	<u>32,274</u>	<u>136,988</u>
Depreciated cost at December 31, 2023	<u>\$ 91,093</u>	<u>\$ 29,558</u>	<u>\$ 120,651</u>
	Land and buildings	Motor vehicles	Total
Cost:			
Balance as of January 1, 2022	\$ 173,450	\$ 54,036	\$ 227,486
Additions during the year:			
New leases	30,711	22,483	53,194
Adjustments for indexation	2,438	1,017	3,455
Adjustments arising from translating financial statements of foreign operations	(15,571)	(5,471)	(21,042)
Modification of leases	589	89	678
Acquisition of subsidiaries	2,714	40	2,754
Disposals during the year:			
Termination of leases	(14,714)	(21,942)	(36,656)
Balance as of December 31, 2022	<u>\$ 179,617</u>	<u>\$ 50,252</u>	<u>\$ 229,869</u>
Accumulated depreciation:			
Balance as of January 1, 2022	\$ 77,669	\$ 33,984	\$ 111,653
Additions during the year:			
Depreciation	31,387	15,893	47,280
Adjustments arising from translating financial statements of foreign operations	(6,902)	(3,416)	(10,318)
Disposals during the year:			
Termination of leases	(13,725)	(21,861)	(35,586)
Balance as of December 31, 2022	<u>88,429</u>	<u>24,600</u>	<u>113,029</u>
Depreciated cost at December 31, 2022	<u>\$ 91,188</u>	<u>\$ 25,652</u>	<u>\$ 116,840</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 19:- EMPLOYEE OPTION PLANS

- a) Formula and its subsidiaries grant, from time to time, options, restricted share units or restricted shares to their officers and employees to purchase shares in the respective companies. In general, the options expire ten years after grant. The following table sets forth the breakdown of share-based compensation expense resulting from such grants, as included in the consolidated statements of profit or loss:

	Year ended December 31,		
	2023	2022	2021
General and administrative expenses	\$ 18,622	\$ 14,953	\$ 14,767
	<u>\$ 18,622</u>	<u>\$ 14,953</u>	<u>\$ 14,767</u>

- b) Formula:

In August 2021, the Company adopted its 2021 Share Incentive Plan (the “2021 Plan”). Pursuant to the 2021 Plan, we may grant from time to time to the Company’s employees, office holders and consultants’ options to purchase, share-based awards or restricted shares with respect to, up to an aggregate of 350,000 Ordinary shares (including 48,378 Ordinary shares that were reserved for issuance under prior years plans and not subject to outstanding grants and transferred to the 2021 Plan). The 2021 Plan is administered by the Company’s board of directors. The 2021 Plan provides that options, restricted shares, or other stock-based awards may be granted, from time to time, to such grantees to be determined by the Company’s board of directors, at such exercise prices and with such vesting or other terms as shall be determined by the Company’s board of directors at its sole and absolute discretion.

In March 2022, Formula’s board of directors, following the approval by Formula’s compensation committee, awarded 21,000 restricted shares under the 2021 Plan (the “new restricted shares”). These restricted shares vest on a quarterly basis over a six-year period, commencing on March 15, 2022 and concluding on December 31, 2027. Total fair value of the grant was calculated based on the Formula share price on the grant date and equaled \$232 (\$96.7 per share). The total compensation expense that the Company recorded in its statement of profit or loss for the years ended December 31, 2023, 2022 in respect of the above grant was \$407 and \$973, respectively. As of December 31, 2023, 9,000 Ordinary shares out of the 21,000 Ordinary shares, were fully vested.

In March 2022, Formula’s board of directors, following the approval by Formula’s compensation committee, awarded employees of the Company 2,400 restricted shares under the 2021 Plan (the “new restricted shares”). These restricted shares vest at certain points in time over a six-year period, commencing on March 15, 2022 and concluding on December 31, 2027. The total fair value of the grant was calculated based on the Formula share price on the grant date and equaled \$2,031 (\$96.7 per share).

In January 2023, Formula’s board of directors, following the approval by Formula’s compensation committee, awarded 15,000 restricted shares under the 2021 plan (the “restricted shares”). These restricted shares vest on an annual basis over a six-year period, commencing on December 31, 2023 and concluding on December 31, 2029. The total fair value of the grant was calculated based on the Formula share price on the grant date and equaled \$1,225 (\$81.65 per share). As of December 31, 2023, none of the restricted shares under this grant were vested.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 19:- EMPLOYEE OPTION PLANS (Cont.)

In November 2020, Formula's board of directors, following the approval by Formula's compensation committee, awarded its chief executive officer 611,771 restricted stock units ("RSUs") in respect of ordinary shares of the Company. 66.67% of the RSUs (i.e., 407,847 RSUs) are subject to time-based vesting that shall start as of the grant date and shall end at December 31, 2027, subject to the continued engagement of Formula's chief executive officer with the Company as of that date (the "Vesting Period"); and up to 33.33% of the RSUs (i.e., 203,924 RSUs as of the date hereof) are subject to performance-based vesting, and shall vest at December 31, 2027 on a pro-rata basis with respect to each fiscal year (starting as of January 1, 2020) during the Vesting Period in which the target EBITDA (as defined in the grant) is achieved, subject to the continued engagement of Formula's chief executive officer with the Company. At the end of the vesting period, the number of performance-based RSUs that vests shall be equal to (i) the number of fiscal years in which the target EBITDA (as defined in the grant) was achieved multiplied by (ii) 25,490.50 RSUs (rounded to the nearest whole number, up to a cap of 203,924 RSUs in total).

The total fair value of the grant was calculated based on the Formula share price on the grant date and equaled NIS 170,684 thousand, or \$50,054 (\$81.8 per share). The total compensation expense the Company recorded in its statement of profit or loss in respect of this grant, in accordance with accounting principles, for the years ended December 31, 2023, 2022, and 2021 was approximately \$6,460, \$7,089 and \$7,373, respectively.

In the event of termination of Formula's chief executive officer services agreement with the Company, by the Company for Cause (as defined in the services agreement), the RSUs will immediately terminate and become null and void, and all interests and rights of Formula's chief executive officer in and to the same will expire. In case of termination of Formula's chief executive officer services agreement by the Company not for Cause, or due to the resignation of Formula's chief executive officer for Good Reason (as defined in the grant), all unvested RSUs that could have vested from the grant date until December 31, 2027, assuming all performance and time conditions and future targets would have been fulfilled (including all targets that would have resulted in vesting with respect to any Previous Year which could have still been met in future years), will accelerate and become immediately vested and exercisable, regardless of the actual occurrence or failure to occur of any of the future performance targets relating to those RSUs.

In the event of resignation by Formula's chief executive officer not for Good Reason (as defined in the grant), Formula's chief executive officer RSUs will vest, in an accelerated manner, in such portion equal to the pro-rata portion of the Vesting Period that has already lapsed (based on the full number of Fiscal Quarters that have lapsed from January 1, 2020 until the actual resignation date, including notice period). However, any Performance Based RSUs for which the applicable target was not achieved up until the resignation date (including the notice period) will expire and terminate.

Total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Formula equity incentive plan as of December 31, 2023, 2022 and 2021 were \$27,703 and \$34,972 and \$45,973 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19:- EMPLOYEE OPTION PLANS (Cont.)c) Matrix IT:

In December 2022, Matrix IT entered into a new employment agreement with its chief executive officer, Mr. Moti Gutman, for the provision of management services for a term of five years starting on January 1, 2023. As part of the new employment agreement, Matrix IT awarded Mr. Gutman 375,000 Matrix restricted shares. 40% of the options will be vested on December 31, 2024 with the remaining amount vesting in equal parts on December 31, 2025, 2026 and 2027 but any case not before the publication of Matrix IT's financial statements for each respective year.

The fair value of the restricted shares amounted on the date of grant to NIS 27,851 thousand (approximately \$7,914).

On March 12, 2023, Matrix IT's board of directors approved, following the approval by Matrix IT's compensation committee, the allocation of 920,000 options exercisable up to 920,000 ordinary Matrix IT's shares of NIS 1 par value, to 18 officers and senior employees of Matrix IT or of its controlled companies. Upon termination of an officer's employment, 45,000 options were forfeited before vesting. 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. 50% of the options will be vested on March 12, 2025, with the remaining amount vesting in equal parts on March 12, 2026 and 2027.

The fair value of the options was estimated on the date of grant using the Binomial model based on the terms which are: risk-free interest rate is 3.34%-4.53%, early exercise factor is 130% and expected volatility is 31%. The contractual life of the options is 5 years from the date of grant.

On August 9, 2023, Matrix IT's board of directors approved, following the approval by Matrix IT's compensation committee, the allocation of 45,000 options exercisable up to 45,000 ordinary Matrix IT's shares of NIS 1 par value, to a senior employee of Matrix IT. 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. 50% of the options will be vested in August, 2025, with the remaining amount vesting in equal parts on August 10, 2026 and 2027. The contractual life of the stock options is 5 years from the grant date.

The fair value of the options was estimated on the date of grant using the Binomial model based on the terms which are: risk-free interest rate is 3.34%-4.53%, early exercise factor is 130% and expected volatility is 31%. The contractual life of the options is 5 years from the date of grant.

The following table summarizes Matrix IT's employee stock-based compensation activity during the year ended December 31, 2023:

	Number of options, RSU and RS	Weighted average exercise price (\$)	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2023	398,878	7.66	0.9	5,144
Granted	1,340,000	14.17	5	8,363
Expired and forfeited	(45,000)	19.68		
Exercised	(398,878)	7.66		5,135
Outstanding at December 31, 2023	<u>1,295,000</u>	<u>13.6</u>	<u>4.16</u>	<u>7,336</u>
Exercisable at December 31, 2023	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19:- EMPLOYEE OPTION PLANS (Cont.)

The aggregate intrinsic value provided in the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on the respective dates. This value would change based on the change in the market value of Matrix IT's ordinary shares and the change in the exchange rate between the New Israeli Shekel and dollar. Total unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Matrix IT equity incentive plan as of December 31, 2023, 2022 and 2021 were \$8,808, \$0 and \$428, respectively.

d) Sapiens:

The following table summarizes Sapiens' stock-based compensation activity during the year ended December 31, 2023:

	Amount of options	Weighted average exercise price	Weighted average remaining contractual life (in years)	Aggregate intrinsic value
Outstanding at January 1, 2023	2,132,763	21.51	3.30	5,531
Granted	429,500	21.09		
Exercised	(558,695)	9.54		
Expired and forfeited	(58,068)	14.59		
Outstanding at December 31, 2023	<u>1,945,500</u>	<u>24.52</u>	<u>3.71</u>	<u>9,118</u>
Exercisable at December 31, 2023	<u>796,425</u>	<u>24.78</u>	<u>3.13</u>	<u>3,604</u>

In 2023, 2022 and 2021, Sapiens granted 429,500, 404,500 and 847,000 stock options, respectively, to its employees and directors to purchase its shares. The weighted average grant date fair values of the options granted during the years ended December 31, 2023, 2022 and 2021 were \$6.51, \$7.22 and \$10.35, respectively. The aggregate intrinsic value provided on the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on the respective dates. This value would change based on the change in the market value of Sapiens' common shares. The total intrinsic value of options exercised during the years ended December 31, 2023, 2022 and 2021 was \$851, \$250 and \$8,505, respectively.

The options outstanding under Sapiens' stock option plans as of December 31, 2023 have been separated into ranges of exercise price as follows:

Ranges of exercise price \$	Options Outstanding	Weighted Average remaining contractual term (Years)	Weighted Average exercise price \$	Options Exercisable	Weighted Average exercise price of Options Exercisable \$
8.49	15,000	0.60	8.49	15,000	8.49
9.49-13.88	52,000	1.36	11.49	52,000	11.49
18.26-22.03	816,500	4.86	20.00	188,425	20.93
22.71-27.28	271,250	2.77	23.43	182,500	22.69
28.6-31.06	723,750	3.29	28.95	325,000	29.12
33.48	67,000	3.92	33.48	33,500	33.48
	<u>1,945,500</u>	<u>3.71</u>	<u>24.52</u>	<u>796,425</u>	<u>24.78</u>

The total equity-based compensation expense related to all of Sapiens' equity-based awards, recognized for the years ended December 31, 2023, 2022 and 2021, after being adjusted to comply with IFRS, was \$3,186, \$4,317 and \$5,421, respectively. As of December 31, 2023, there was \$3,601 of total unrecognized compensation cost related to non-vested options, which is expected to be recognized over a weighted-average period of 1.67 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 19:- EMPLOYEE OPTION PLANS (Cont.)

A summary of the RSU activities in Sapiens in the year ended on December 31, 2023, is as follows:

	Amount of options	Weighted Average Grant-Date Fair value
Unvested at January 1, 2023	139,144	\$ 26.56
Granted	7,500	19.96
Vested	(34,329)	24.47
Expired and forfeiture	(39,492)	24.56
Unvested at December 31, 2023	<u>72,823</u>	<u>\$ 27.95</u>

e) Magic Software:

The following table summarizes Magic Software share-based compensation activity during the year ended December 31, 2023:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2023	26,250	\$ 0.91	5.95	\$ 397
Granted	-	-		
Forfeited	(20,000)	3.51		
Exercised	(6,250)	-		
Outstanding at December 31, 2023	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>
Exercisable at December 31, 2023	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

The aggregate intrinsic value provided on the table above represents the total intrinsic value that would have been received by the option holders had all option holders exercised their options on the respective dates. This value would change based on the change in the market value of Magic Software's ordinary shares. Total intrinsic value of options exercised during the years ended December 31, 2023, 2022 and 2021, was \$61, \$344 and \$628 respectively.

Stock Option Plan of Comm-IT Technology Solutions Ltd ("Comm-IT Solutions"), a subsidiary of Magic Software:

Under the Comm-IT Solutions' 2022 Stock Option Plan, ("Comm-IT Solutions 2022 Plan"), options may be granted to employees, officers, directors and consultants of Comm-IT Solutions and its subsidiaries. Pursuant to Comm-IT Solutions 2022 Plan, Comm-IT Solutions shall reserve in its registered and reserved capital, such sufficient number of shares (subject to any adjustment in the capital under the Comm-IT Solutions 2022 Plan) required in order to consummate the Comm-IT Solutions 2022 Plan.

In December 2022, Comm-IT Solutions, awarded 12 of its senior officers 4,028 options to purchase 4,028 shares of Comm-IT Solutions. 827 of the options have fully vested upon their grant, whereas the vesting of the remainder of the options are subject to Comm-IT Solutions and its subsidiaries meeting certain EBITDA targets for the years 2023-2024. In 2023, CommIT fully achieved plan EBITDA targets. Subject to the EBITDA targets to be met, as well as the officers continued employment with Comm-IT Solutions throughout 2027, the options will vest at certain points in time throughout the years 2024 to 2027.

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NOTE 19:- EMPLOYEE OPTION PLANS (Cont.)

A summary of employee option activity under the Comm-IT Solutions 2022 Plan as of December 31, 2023 and changes during the year ended December 31, 2023 are as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Outstanding at January 1, 2023	4,028	\$ 264.67	7.94	\$ 7,499
Granted	-			
Outstanding at December 31, 2023	4,028	256.79	6.94	7,276
Exercisable at December 31, 2023	1,847	\$ 27.72	6.93	\$ 3,760

As of December 31, 2023, there was \$1,465 of total unrecognized compensation cost related to non-vested options of Comm-IT Solutions, which is expected to be recognized in full over a weighted average period of 1.1 years.

The options outstanding as of December 31, 2023, have been separated into exercise price categories, as follows:

Ranges of Exercise price	Options outstanding	Weighted average remaining contractual life (Years)	Options exercisable	Weighted average exercise price of exercisable options
\$				\$
0.28	3,238	6.92	1,736	0.28
455	297	6.99	111	455
1,822	493	6.99	-	-
	4,028	6.94	1,847	\$ 27.72

NOTE 20:- 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 Israeli companies in the Group are 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. These liabilities are 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 an 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 a defined benefit plan or as a defined contribution plan, as detailed below.

1) Defined contribution plans:

Section 14 of 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 benefits represent defined contribution plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 20:- EMPLOYEE BENEFIT LIABILITIES (Cont.)2) Defined benefit plans:

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in central severance pay funds and in qualifying insurance policies.

3) Other long-term benefits:

Certain of the Company's U.S. subsidiaries have a 401(k) defined contribution plan covering certain employees in the U.S. All eligible employees may elect to contribute up to 100% of their annual compensation to the plan through salary deferrals, subject to Internal Revenue Service limits. These U.S. Subsidiaries match up to 3% of the employees' contributions up to the plan with no limitation.

b) Composition of defined benefit plans is as follows:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Defined benefit obligation	\$ 85,743	\$ 91,973
Fair value of plan assets	(75,316)	(82,857)
Net defined benefit liability	<u>\$ 10,427</u>	<u>\$ 9,116</u>

NOTE 21:- COMMITMENTS AND CONTINGENCIESa) Liens:

1) Liens have been incurred by Formula over a certain portion of the Matrix IT, Magic Software and Sapiens' shares which it held. As of December 31, 2023 Formula has collateral in connection with the Series A Secured Debentures and Series C Secured Debentures issued by Formula on the TASE (see Note 16).

2) Composition of pledged shares of Matrix IT, Magic Software and Sapiens owned by Formula as of December 31, 2023:

	<u>December 31, 2023</u>	
	<u>Formula's Series A Secured Debentures</u>	<u>Formula's Series C Secured Debentures</u>
Matrix IT ordinary shares, par value NIS 1.0 per share	4,128,865	6,169,761
Magic Software ordinary shares, par value NIS 0.1 per share	5,825,681	3,141,474
Sapiens common shares, par value €0.01 per share	1,260,266	2,957,590

In August 2022, following the private placement of an additional NIS 200,000 thousand par value Series C Secured Debentures, Formula pledged an additional 138,000 shares of Matrix IT and 730,000 shares of Magic (see Note 16).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)b) Guarantees:

As of December 31, 2023, the Group provided performance bank guarantees in an aggregate amount of approximately \$41,900 as security for performance of various contracts with customers and suppliers. As of December 31, 2023, the Group provided bank guarantees in an aggregate amount of approximately \$9,400 as security for rent to be paid for its leased offices. As of December 31, 2023, the Group had restricted bank deposits in an aggregate amount of \$1,400 in favor of the above-mentioned bank guarantees. In addition, The Company and its subsidiaries provided certain cross guaranties in favor of certain subsidiaries in the Group.

Each of Matrix IT, Sapiens, Magic Software and Formula provides cross guarantees to its subsidiaries.

c) Covenants:

In connection with the Group's debentures and credit facility agreements with banks and other financial institutions, as of December 31, 2023, the Group committed to the following:

1) Formulai) Formula's Debentures

In accordance with Formula's indenture for its Series A and Series C Secured Debentures, Formula has undertaken to comply with the following financial covenants and obligations:

A covenant not to distribute dividends unless (i) Formula shareholders' equity attributable to Formula Systems shareholders is at least \$290,000, (ii) Formula's net financial indebtedness (financial indebtedness offset by cash, marketable securities, deposits and other liquid financial instruments) shall not exceed 50% of net CAP (defined as financial indebtedness, net, plus shareholders' equity), and (iii) the aggregate amount of distributions from January 1, 2016 shall not exceed the aggregate amount of net income for the year ended December 31, 2015 together with 75% of accumulated profits from January 1, 2016 until the respective distribution date and (iv) no event of default shall have occurred.

- a. Financial covenants, including: (i) the equity attributable to Formula Systems shareholders, as reported in Formula's annual or quarterly financial statements, shall not be less than \$215 million (as of December 31, 2023, Formula equity attributable to Formula Systems' shareholders was approximately \$625,762); (ii) Formula's net financial indebtedness (financial indebtedness offset by cash, marketable securities, deposits and other liquid financial instruments) shall not exceed 65% of net CAP (defined as financial indebtedness, net, plus total equity) (as of December 31, 2023 Formula's net financial indebtedness was 1.0% of net CAP); (iii) the ratio of Formula's net financial indebtedness to the last twelve-months period EBITDA will not exceed 5 (all based on the Company's quarterly and annual consolidated financial statements) (as of December 31, 2023 the ratio of Formula's net financial indebtedness to EBITDA was 0.03); and (iv) at all times, Formula's cash balance on a stand-alone basis will not be less than the semi annual interest payments for the unpaid principal amount of Series A and Series C Secured Debentures (as of December 31, 2023 Formula's cash balances exceed the semi annual interest payments amount).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)

- b. Standard events of default, including, among others:
1. Suspension of trading of the debentures on the TASE over a period of 60 days;
 2. If the rating of the debentures is less than BBB- by Standard and Poors Maalot or equivalent rating of other rating agencies;
 3. Failure to have the debentures rated over a period of 60 days;
 4. If there is a change in control without consent of the rating agency; and
 5. If Formula fails to continue to control any of its subsidiaries;

2) Matrix IT

- A. In the context of Matrix IT's engagements with banks and financial institutions for its credit facilities, Matrix IT has undertaken to comply with the following financial covenants, as they are expressed in its financial statements:
- (i) The total rate of Matrix IT financial debts and liabilities to banks with the addition of debts in respect of debentures that have been and/or will be issued by Matrix IT and shareholders' loans that have been and/or will be granted to Matrix IT (collectively, the "debts") will not exceed 40% of its total balance sheet. As of December 31, 2023 the ratio between Matrix IT's financial debts and liabilities to banks versus Matrix IT total assets was 7.7%.
 - (ii) The ratio of Matrix IT net debt to the annual EBITDA will not exceed 3.5. As of December 31, 2023, Matrix IT ratio of net debt to EBITDA was 0.53.
 - (iii) Matrix IT equity shall not be lower than NIS 275,000 thousand (approximately \$75,820) at all times. As of December 31, 2023 Matrix IT's equity was approximately NIS 1,049,000 thousand (approximately \$289,220).
 - (iv) Matrix IT cash and cash equivalents and short-term bank deposits shall not be less than NIS 50,000 thousand (approximately \$13,785). In the context of Matrix IT's issuance of Commercial Securities which are not listed, Matrix IT committed to maintain at least NIS 300,000 thousand (approximately \$82,713) of liquid assets including unused approved bank credits. Such liquid assets should account for not less than NIS 200,000 thousand of cash and cash equivalent and short-term bank deposit (approximately \$55,142). As of December 31, 2023, Matrix IT's cash and cash equivalent and short-term bank deposits amounted to NIS 640,208 thousand (approximately \$176,512).
 - (v) Matrix IT has committed that the rate of ownership and control of Matrix IT-Systems shall never be below 50.1%.
 - (vi) Matrix IT will not create any pledge on all or part of its property and assets in favor of any third party and will not provide any guarantee to secure any third party's debts as they are today and as they will be without the banks' consent (except for a first-rate fixed pledge on an asset which acquisition will be financed by a third party and which the pledge will be in his favor).
 - (vii) Matrix IT will not sell and/or transfer all or part of its assets to others in any manner whatsoever without the banks' advance written consent unless it is done in the ordinary course of business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)

B. Matrix IT Series B Debentures:

In accordance with Matrix IT's indenture for its Series B Debentures, Matrix IT has undertaken to comply with the following financial covenants and obligations:

- (i) Matrix IT total shareholders' equity (all based on Matrix IT's quarterly or annual consolidated financial statements, and as defined on Matrix IT Series B Debentures deed of trust) shall not be less than NIS 275,000 thousand (approximately \$75,820). As of December 31, 2023, Matrix IT total shareholders' equity (all based on Matrix IT's 2023 annual consolidated financial statements, and as defined on Matrix IT Series B Debentures deed of trust) was approximately NIS 1,107,472 thousand (approximately \$305,341).
- (ii) Matrix IT net financial indebtedness (all based on Matrix IT's quarterly or annual consolidated financial statements, and as defined on Matrix IT Series B Debentures deed of trust) shall not exceed 45% of Matrix IT total assets (all based on Matrix IT's quarterly or annual consolidated financial statements, and as defined on Matrix IT Series B Debentures deed of trust). As of December 31, 2023 Matrix's net financial indebtedness (all based on Matrix IT's 2023 annual consolidated financial statements, and as defined on Matrix IT Series B Debentures deed of trust) was 7.7% of total assets.
- (iii) The ratio of Matrix IT net financial indebtedness (as defined on Matrix IT Series B Debentures deed of trust) to the last twelve-months period EBITDA (as defined on Matrix IT Series B Debentures deed of trust) will not exceed 5 (all based on Matrix IT's quarterly and annual consolidated financial statements). As of December 31, 2023 the ratio of Matrix IT's net financial indebtedness to EBITDA (all based on Matrix IT's 2023 annual consolidated financial statements, and as defined on Matrix IT Series B Debentures deed of trust) was 0.52.

3) Sapiens

In accordance with the indenture for Sapiens' Series B Debentures, Sapiens has undertaken to maintain a number of conditions and limitations on the manner in which it can operate its business, including limitations on its ability to undergo a change of control, distribute dividends, incur a floating charge on its assets, or undergo an asset sale or other change that results in fundamental change in its operations. Sapiens Series B Debentures deed of trust also requires it to comply with certain financial covenants, as described below. A breach of the financial covenants for more than two successive quarters or a substantial downgrade in the rating of the debentures (below BBB-) could result in the acceleration of Sapiens' obligation to repay the debentures. The deed of trust includes the following provisions:

- (i) a negative pledge, subject to certain exceptions.
- (ii) financial covenants, including: (a) the equity attributable to the shareholders of Sapiens, as reported in its annual or quarterly financial statements, will not be less than \$120 million. (as of December 31, 2023 Sapiens shareholders' equity was \$447.3 million); (ii) Sapiens' net financial indebtedness (financial indebtedness offset by cash, marketable securities deposits and other liquid financial instruments) shall not exceed 65% of net CAP (defined as financial indebtedness, net, plus shareholders equity, including deposits and other liquid financial instruments) (as of December 31, 2023 Sapiens' net financial indebtedness was (46.48%) of net CAP); and (iii) the ratio of Sapiens' net financial indebtedness to EBITDA (based on accumulated calculation for the four last quarters) shall not exceed 5.5 (as of December 31, 2023 the ratio of Sapiens' net financial indebtedness to EBITDA was (1.46)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)

(iii) a covenant not to distribute dividends unless (a) Sapiens equity attributable to Sapiens shareholders' shall not be less than \$160 million, (b) Sapiens net financial indebtedness (financial indebtedness offset by cash, marketable securities, deposits and other liquid financial instruments) does not exceed 65% of net CAP (defined as financial indebtedness, net, plus total equity), (c) the amount of accumulated dividends from the issuance date and going forward shall not exceed Sapiens net income for the year ended December 31, 2016 and the first three quarters of the year ended December 31, 2017, plus 75% of Sapiens accumulated profits from September 1, 2017 and up to the date of distribution, and (d) no event of default shall have occurred.

4) Magic Software

Under the terms of the loans with an Israeli financial institutions, Magic Software has undertaken to comply with the following financial covenants, as they will be expressed in its consolidated financial statements:

- (i) Magic Software' equity will not be lower than \$150 million (one hundred and fifty million U.S. Dollars at all times) - as of December 31, 2023 Magic Software shareholders' equity was \$290,944;
- (ii) The ratio of Magic Software' total financial debts less cash to total assets will not exceed 30% - as of December 31, 2023 Magic Software financial debts less cash were negative (-5%, since cash exceeds indebtedness); and
- (iii) The ratio of Magic Software's total financial debts less cash, short-term deposits and short-term marketable securities to the annual EBITDA will not exceed 3.25 - as of December 31, 2023 the ratio of Magic Software's net financial indebtedness to EBITDA was negative (-0.31) (cash exceeds indebtedness).

As of December 31, 2023, each of Formula, Matrix IT, Sapiens and Magic Software was in compliance with all of its financial covenants.

d) Legal proceedings:

- 1) On November 23, 2020, Olir Trade and Industries Ltd. ("Olir") filed a derivative action and a motion to certify a derivative action, with the District Court (Economic Division) of Tel Aviv-Jaffa, Israel (Derivative Action No. 58348-11-20) (the "Claim" and the "Motion to Certify", respectively) (as reported in the Company's Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on December 9, 2020). In the framework of the Motion to Certify, Olir requested permission to file the Claim, on the Company's behalf, against each of the Company's five directors, as well as the Company's chief executive officer (the "CEO"), Mr. Guy Bernstein, and chief financial officer, Mr. Asaf Berenstin (the "CFO"), as defendants. The Company and the named defendants are all listed as respondents to the Motion to Certify. The Claim challenges the legality, under the Israeli Companies Law, 5759-1999 (the "Companies Law"), of compensation awarded to the Company's CEO and CFO, including past engagements with the CEO and the recent re-approval by the Company's compensation committee and board of directors (as reported in the Company's Report of Foreign Private Issuer on Form 6-K furnished to the Securities and Exchange Commission on November 4, 2020), of the eight-year equity-based award of compensation—in the form of 611,771 restricted share units—to the Company's CEO. The Claim includes allegations of breaches of fiduciary duties (duty of care and duty of loyalty) and the oppression of minority shareholders and unjust enrichment. The Claim seeks an accounting from the defendants as to the alleged harm caused to the Company, as well as compensation to the Company for such harm. The Claim also seeks a declaratory order preventing the board of directors from using voting powers allegedly granted to it under agreements related to the Company's ADSs. The Company rejects all claims made by Olir and believe that all actions taken by its board of directors and its committees were taken in accordance with the Companies Law and based upon advice of legal counsel. All respondents intend to vigorously defend against the Motion to Certify and on May 13, 2021 all respondents filed their responses to the Motion to Certify.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)

On January 24, 2023, the Company submitted a request for dismissal in limine of the motion to certify due to a change in the factual grounds of the motion including, among other things, the reapproval of the compensation given to the CEO by a new and independent board of directors made on January 15, 2023. The court asked the other parties to respond to the request for dismissal by March 1, 2023. A cross examinations hearing was held on January 31, 2023. On March 1, 2023, the other respondents to the motion to certify submitted their responses to the request for dismissal in which they supported the request. On March 8, 2023, Olir filed its objection to the dismissal in limine. On April 13, 2023 the Company submitted its response to Olir's response. On September 18, 2023 Olir filed its briefs. On December 3, 2023, the Company filed a motion to render a decision in the motion to dismiss in limine. On December 5, 2023 the court granted the Company with a motion to dismiss in limine, and ordered the Company to pay Olir's costs in the amount of NIS 45 thousand. On January 25, 2024 Olir filed an appeal against the District Court's decision, with the Supreme Court. Olir failed to attach to its appeal the pleadings regarding the motion to dismiss. On March 26, 2024 the Company and all other respondents notified the Supreme Court that they believe that Olir acted in bad faith and contrary to the rules of law, when it did not attach essential documents to the notice of appeal and drafted a misleading notice of appeal. The respondents argued that those actions had real implications on the pre-appeal hearing, as the court lacked the respondents' position and claims. Therefore, the respondents requested that their position be heard at a bench hearing of the court. A bench hearing is now scheduled for February 5, 2025. The respondents are required to file their response to Olir's appeal by June 10, 2024. At this stage of the proceedings, we believe that the chances for the approval of Olir's Motion to Certify are low.

- 2) On December 24, 2019, a motion for the approval of a class action (#60508-02-20), in an amount of NIS 793,800 thousands (approximately \$225,600), was filed against our subsidiary Zap Group with the Israeli district court (central district), claiming that Zap Group had allegedly generated income illegally from paying customers through the 'ZAP's price comparison' website. At the pre-trial hearing, it was decided that the plaintiffs would file an explanation to the court as to why they believed they were fit to serve as class action plaintiffs and why they had performed prohibited clicks on their competitor's websites through Zap Group's website. In addition, the plaintiffs were requested to update whether they were willing to reduce the amount of the claim. On July 15, 2021, the plaintiffs filed a motion to reduce the amount of the claim to NIS 63,000 thousands (approximately \$17,900). On December 15, 2021, a pre-trial hearing took place, in which the court clarified that it does not intend to interfere with Zap Group's business considerations regarding the click filtering mechanisms that it operates. The court recommended that the plaintiffs reach an agreed solution with Zap Group on the issue of the necessary disclosure that Zap Group should include in its contracts with customers (as available on its website). The parties were requested to file a joint notice in accordance with the court's recommendation by January 15, 2022. The plaintiffs submitted a request for an extension to file the notice. On April 5, 2022, the plaintiffs filed a notice with the court stating that they had not reached agreements with Zap Group and therefore seek to set the case for evidentiary hearing. On December 12, 2022 the parties filed a joint notice with the court stating their agreement to initiate a mediation process. A mediation meeting took place on February 6, 2023. The mediation ended without the parties reaching an agreement. A date for a hearing has not yet been set. As this claim was filed against Zap Group prior to its acquisition by the Company, any potential liability of Zap Group resulting from the proceedings is covered by the indemnification obligations of the former shareholders of Zap Group to Formula.

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NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)

- 3) On December 30, 2021, Ronen Har Even, Galit Har Even and TV Center Ltd. (the "Plaintiffs") submitted a monetary claim in the sum of NIS 24,500 thousands (approximately \$7,000) and a claim for the grant of a mandamus order against Zap Group, in the District Court at Haifa. The Plaintiffs allege that Zap Group constitutes a monopoly in the provision of price comparison services in the online arena in Israel, and excluded the Plaintiffs' business from the E-commerce arena in Israel. According to the Plaintiffs, Zap Group prevented price comparisons between the prices of the Plaintiffs' televisions and the prices of the televisions of the official importers, by causing systemic manipulations aimed at excluding the television models sold by the Plaintiffs and blurring the fact that they are cheaper in the search results. As mentioned in the Statement of Claim, concurrent with submission of the Claim, on April 19, 2021, the Plaintiffs submitted a complaint against Zap Group to the Israel Competition Authority, and on August 18, 2021 and October 21, 2021, submitted supplements to the aforesaid complaint. On June 1, 2022, Zap Group submitted a statement of defense, denying the Plaintiffs' allegations and in particular the Plaintiffs' argument that Zap Group has a monopoly in the provision of price comparison services in the online arena in Israel. On July 19, 2022, a pre-trial hearing took place, at the end of which it was held that the Parties must conclude the discovery proceedings by September 10, 2022, and that should any of the Parties wish to submit a motion following receipt of the answers, they must do so by November 15, 2022. On November 15, 2022 the Plaintiffs submitted a motion for the grant of an order of discovery of documents and answer to interrogatories. On December 20, 2022, Zap Group submitted its response to the motion, in which it rejected all of the Plaintiffs' demands. The Plaintiffs provided Zap Group with the documents that had been disclosed by them in the case, without a suitable legend. On January 3, 2023, Zap Group submitted a motion to obligate the Plaintiff's to deposit a bond to cover Zap Group's expense in the event the claim was dismissed. On January 13, 2023, the Plaintiffs submitted a response to the motion. On January 16, 2023, a pre-trial hearing took place, in which Zap Group insisted on the receipt of a suitable legend for the documents that had been disclosed to it by the Plaintiffs. The Court held that the Plaintiffs would deliver a suitable legend within 45 days, after which Zap Group would be entitled to submit a suitable motion in this regard within 30 days, should the need to do so arise. On March 5, 2023, the Plaintiffs submitted a new document file in the context of the discovery proceedings, and an updated legend that was almost identical to the previous one. For that reason, on April 3, 2023, Zap Group submitted a motion petitioning the Court to dismiss the Statement of Claim due to breach of the Court's decision to provide the discovery materials in a proper manner or, alternatively, to issue an order mandating the Plaintiffs provide a suitable legend, per the Court's prior decision. On July 19, 2023, the Court instructed the Plaintiffs to submit updated disclosure documents with a suitable legend and organized as requested by the Court. The Court also charged the Plaintiffs with expenses in an amount of NIS 10,000 in connection with this motion. On September 20, 2023, the Plaintiffs submitted updated disclosure documents that did not meet the Court's instructions. As a result, on October 30, 2023 Zap Group submitted an additional motion to dismiss as a result of ignoring the Court's order on the matter. On November 28, 2023, the Plaintiffs submitted their response to the motion, resulting in the Court allowing Zap Group to raise claims regarding this matter in the next hearing. On March 5, 2024 the Court rejected the Plaintiffs' motion petitioning the Court to order additional discovery as well as most of the Plaintiffs' motion requesting the Court order Zap Group to provide answers to certain questions. Zap Group provided the Plaintiffs with answers to the remaining questions on April 2, 2024. The Plaintiffs must submit affidavits of primary testimony by June 3, 2024 and Zap Group must submit affidavits of primary testimony 90 days afterward. In light of the early stage of the proceedings, it is not possible to estimate the likelihood of success of the lawsuit.

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NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)

- 4) In November 2023, "Safra", a subsidiary of Zap Group, was added as defendant to a lawsuit filed by the estate of the deceased Klil Kimchi, who died in an accident in a swimming pool in a private house during a social event organized by Safra and another company. The deceased was invited as a guest of the other company. The total claim is NIS 9,645 thousands. The other company has filed a third-party notice against Safra. As of May 7, 2024, Safra submitted a statement of defense as well as a third-party notice on its behalf, and no statements of defense have yet been submitted to the third-party notice submitted by the company. The lawsuit is at a very early stage and preliminary proceedings are currently taking place between the parties and in light of the early stage, it is not possible to estimate the likelihood of success of the lawsuit. The subject incident (in which the deceased died) took place before Zap Group acquired Safra; therefore, any potential liability of Zap Group resulting from the proceedings is covered by the indemnification obligations of the former shareholders of Safra to Formula.
- 5) On December 3, 2023, our subsidiary Matrix received a request for disclosure of materials pursuant to Section 198a of the Companies Law, which was submitted to the District Court (Economic Division) of Tel Aviv-Jaffa by an individual who claimed to be a shareholder of Matrix. The request related to a potential derivative claim that could be filed by the individual, on Matrix's behalf, against Matrix's chief executive officer and each of its directors related to the procedure for the approval of compensation awarded to Matrix's chief executive officer following the rejection of such compensation by Matrix's general meeting of shareholders and the re-approval of that compensation by Matrix's compensation committee and board of directors, respectively, acting in accordance with the Companies Law. Matrix filed a response to the disclosure request in which Matrix requested that the court deny, on various grounds, the request made by the potential plaintiff. At this early stage of this legal proceeding we cannot predict its outcome.
- 6) In addition to the above-described legal proceedings, from time to time, Formula and/or its subsidiaries and affiliates are subject to legal, administrative and regulatory proceedings, claims, demands and investigations in the ordinary course of business, including claims with respect to intellectual property, contracts, employment and other matters.

The Group accrues a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Significant judgment is required in the determination of both the probability and as to whether a loss is reasonably estimable. These accruals are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel and other information and events pertaining to a particular matter. The Group intends to defend itself vigorously against the above claims, and it generally intends to vigorously defend any other legal claims to which it is subject. While for most litigations, the outcome is difficult to determine, to the extent that there is a reasonable possibility that the losses to which the Group may be subject could exceed the amounts (if any) that it has already accrued, the Group attempts to estimate such additional loss, if reasonably possible, and disclose it (or, if it is an immaterial amount, indicate accordingly). The aggregate provision that the Group has recorded for all other legal proceedings (other than the particular material proceedings described above) is not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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NOTE 21:- COMMITMENTS AND CONTINGENCIES (Cont.)e) Royalty commitments:

Sapiens Technologies (1982) Ltd. (“Sapiens Technologies”), a wholly owned subsidiary of Sapiens incorporated in Israel, was partially financed under programs sponsored by the IIA, formerly the Office of the Chief Scientist (“OCS”) for the support of certain research and development activities conducted in Israel. In exchange for participation in the programs by the IIA, Sapiens Technologies agreed to pay 3.5% of total net consolidated license and maintenance revenue and 0.35% of the net consolidated consulting services revenue related to the software developed within the framework of these programs based on an understanding with IIA reached in January 2012. The royalties will be paid up to a maximum amount equaling 100%-150% of the grants provided by the IIA, linked to the dollar, and for grants received after January 1, 1999, bear annual interest at a rate based on LIBOR.

As of December 31, 2023, the total remaining unpaid royalties to the IIA amounted to \$5,021, out of which, an amount of \$2,098 was recorded as a liability in accordance with IAS 20.

f) Insurance:

The Company and its subsidiaries and affiliates insure themselves in bodily injury and property damage insurance policies, including third party, professional liability and employer’s liability insurance policies. Formula, Sapiens, Magic Software, Zap Group, Insync, Michpal, Shamrad and Ofek directors and officers (D&O) are insured under an “umbrella” policy for insurance of directors and officers including D&O side A DIC policy (another layer of protection for officers) acquired by the Company for itself and its subsidiaries, for a period of 12 months from February 14, 2023.

NOTE 22:- EQUITY

The composition of the Company’s share capital is as follows:

	December 31, 2023			December 31, 2022		
	Authorized	Issued	Outstanding	Authorized	Issued	Outstanding
Ordinary shares, NIS 1 par value each	25,000,000	15,901,287	15,332,667	25,000,000	15,886,287	15,317,667

- Formula’s ordinary shares, par value NIS 1 per share, are traded on the TASE, and Formula’s ADSs, each representing one ordinary share, are traded on the NASDAQ.
- Formula holds 568,620 of its own ordinary shares.
- In February 2021, Formula declared a cash dividend of approximately NIS 33,036 thousand (approximately \$10,155) or NIS 2.16 per share (approximately \$0.66 per share) to shareholders of record on February 18, 2021 that was paid on March 4, 2021.
- In August 2021, Formula declared a cash dividend of approximately NIS 38,694 thousand (approximately \$11,932) or NIS 2.53 per share (approximately \$0.78 per share) to shareholders of record on September 1, 2021 that was paid on September 19, 2021.

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NOTE 22:- EQUITY (Cont.)

- e. In March 2022, Formula declared a cash dividend of approximately NIS 39,213 thousand (approximately \$12,018) or NIS 2.56 per share (approximately \$0.78 per share) to shareholders of record on April 12, 2022 that was paid on April 25, 2022.
- f. In November 2022, Formula declared a cash dividend of approximately NIS 33,086 thousand (approximately \$9,571) or NIS 2.16 per share (approximately \$0.62 per share) to shareholders of record on December 5, 2022 that was paid on December 19, 2022.
- g. In May 2023, Formula declared a cash dividend of approximately NIS 35,265 thousand (approximately \$9,605) or NIS 2.3 per share (approximately \$0.63 per share) to shareholders of record on June 5, 2023 that was paid on June 22, 2023.
- h. For information concerning Formula's employees and officers share-based plans, see Note 19.
- i. See Note 26 about subsequent events.

NOTE 23:- INCOME TAX

- a. Israeli taxation:

- 1) Corporate tax rate in Israel:

Taxable income of Israeli companies was generally subject to corporate tax at the rate of 23% in 2023, 2022. Some of our Israeli subsidiaries are eligible for certain tax benefits, as described below.

- 2) Tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Law"):

- Amendment 73 to the Law:

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years) 2016, which includes Amendment 73 to the Law for the Encouragement of Capital Investments (the "2017 Amendment") was published and was pending the publication of regulations, in May 2017 regulations were promulgated by the Finance Ministry to implement the "Nexus Principles" based on OECD guidelines published as part of the Base Erosion and Profit Shifting (BEPS) project. Following the publication of the regulations the 2017 Amendment became fully effective. According to the 2017 Amendment, a Preferred Technological Enterprise, as defined in the 2017 Amendment, with total consolidated revenues of the group companies is less than NIS 10 billion, shall be subject to 12% tax rate on income derived from intellectual property (in development area A—a tax rate of 7.5%). In order to qualify as a Preferred technological enterprise certain criterion must be met, such as a minimum ratio of annual R&D expenditure and R&D employees, as well as having at least 25% of annual revenues derived from exports. A Preferred Technology Enterprise that acquires Benefited Intangible Assets from a foreign company for more than NIS 200 million after January 1, 2017, will be eligible for 12% reduce tax rate on capital gain upon sale of the Benefited Intangible Assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 23:- INCOME TAX (Cont.)

The 2017 Amendment further provides that a technology company satisfying certain conditions will qualify as a Special Preferred Technology Enterprise ("SPTE") (an enterprise for which, among others, total consolidated revenues of its parent company and all subsidiaries is at least NIS 10 billion) and will thereby enjoy a reduced corporate tax rate of 6% on PTI regardless of the company's geographic location within Israel. In addition, a SPTE will enjoy a reduced corporate tax rate of 6% on capital gain derived from the sale of certain "Benefited Intangible Assets" to a related foreign company if the Benefited Intangible Assets were either developed by the Special Preferred Technology Enterprise or acquired from a foreign company on or after January 1, 2017.

Starting from 2017 under Amendment 73 to the Investment Law, part of the Group's taxable income in Israel is entitled to a preferred 12% tax rate. Since 2019, under SPTE the tax rate for part of the Group's taxable income in Israel has been reduced to a 6% corporate tax rate.

Amendment 74 to the Encouragement Law:

On November 15, 2021, the Economic Efficiency Law (Legislative Amendments for Achieving Budget Targets for the 2021 and 2022 Budget Years), 2021 (the "Economic Efficiency Law"), was enacted. This Law establishes a temporary order allowing Israeli companies to release tax-exempt earnings ("trapped earnings" or "accumulated earnings") accumulated until December 31, 2020, through a mechanism established for a reduced corporate income tax rate applicable to those earnings (the "Temporary Order").

In addition to the reduced corporate income tax (CIT) rate, Article 74 to the Encouragement Law was amended whereby effective from August 15, 2021, for any dividend distribution (including a dividend as per Article 51B to the Encouragement Law) by a company which has trapped earnings, there will be a requirement to allocate a portion of that distribution to the trapped earnings. The tax-exempt income is attributable to certain Group members' previous status as "Approved Enterprise" and "Benefited Enterprise". Such tax-exempt income cannot be distributed to shareholders without subjecting the Company to payable income taxes. If dividends are distributed from previous tax-exempt profits, the Company will be liable for income tax at the rate applicable to its profits from the Approved Enterprise in at the tax rate enacted in the year in which the income was earned. According to the Temporary Order, the reduction of CIT will apply to earnings that are released (with no requirement for an actual distribution) within a period of one year from the date of enactment of the Temporary Order. The reduction in the CIT is dependent on the proportion of the trapped earnings that are released in relation to the total trapped earnings, and on the applicable CIT rate in the years the earnings were generated. Consequently, the larger the proportion of the trapped earnings that are released, the lower the tax in respect of the distribution. The minimum tax rate is 6%. Further, a company that elects to pay a reduced CIT is required to invest in its industrial enterprise a designated amount in accordance with the Economic Efficiency Law within a period of five years commencing from the tax year in which the election is made. The designated investment should be utilized for the acquisition of production assets, and/or investments in research and development and/or compensation to additional new employees.

According to IAS 12, a deferred tax liability would generally be recorded relating to corporate taxes that would be owed on the distribution of profits if management has currently the intention to declare dividends of its tax-exempt earnings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 23:- INCOME TAX (Cont.)

In 2021, Sapiens elected to benefit from the Temporary Order and pay the reduced CIT as per the provisions of the Economic Efficiency Law in respect of its total accumulated tax-exempt earnings amounting to NIS 109,000 thousand (approximately \$35,048), and accordingly recognized deferred tax liability of \$3,531, which was subsequently realized upon the actual filing of the application in 2022 and the payment of related taxes. In November 2022, Magic Software also elected to benefit from the Temporary Order and filed its application for the Temporary Order and paid the required reduced CIT as per the provisions of the Economic Efficiency Law in respect of its total accumulated tax-exempt earnings amounting to NIS 25,022 thousand (approximately \$7,100), and accordingly recognized a tax liability of NIS 2,502 thousand (approximately \$711).

As a result, as of December 31, 2022 all of Sapiens' and Magic Software's trapped earnings were released.

3) Tax benefits under the Israeli Law for the Encouragement of Industry (Taxes), 1969:

It is Formula's management's belief that certain of its Israeli operations currently qualify as Industrial Companies within the meaning of the Law for the Encouragement of Industry (Taxes), 5729-1969 (the "Industrial Encouragement Law"). The Industrial Encouragement Law, provides several tax benefits for an "Industrial Company". Pursuant to the Industry Encouragement Law, a company qualifies as an Industrial Company if it is an Israeli resident company which was incorporated in Israel and at least 90% of its income in any tax year (other than income from certain government loans) is generated from an "Industrial Enterprise" that it owns and located in Israel or in the "Area," in accordance with the definition under Section 3A of the Israeli Income Tax Ordinance (New Version) 1961, or the Ordinance. An "Industrial Enterprise" is defined as an enterprise which is held by an Industrial Company whose major activity, in any given tax year, is industrial production.

An Industrial Company is entitled to certain corporate tax benefits, including:

- i. Amortization of the cost of purchased patents, or the right to use a patent or know-how or certain other intangible property rights (other than goodwill) that were purchased in good faith and are used for the development or promotion of the Industrial Enterprise, over an eight-year period commencing on the year in which such rights were first exercised.
- ii. The right to elect, under certain conditions, to file a consolidated tax return together with Israeli Industrial Companies controlled by it.
- iii. Expenses related to a public offering are deductible in equal amounts over three years beginning from the year of the offering.

Eligibility for the benefits under the Industrial Encouragement Law is not subject to receipt of prior approval from any governmental authority. The Group believes that certain of its Israeli subsidiaries currently qualify as Industrial Companies within the definition under the Industry Encouragement Law. The Group cannot assure you that those subsidiaries will continue to qualify as Industrial Companies or that the benefits described above will be available in the future.

4) Foreign Exchange Regulations:

Under the Foreign Exchange Regulations, certain Israeli subsidiaries of the Group calculate their tax liability in dollars according to certain orders. The tax liability, as calculated in dollars is translated into NIS according to the exchange rate as of December 31 of each year for tax purposes only.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 23:- INCOME TAX (Cont.)5) Structural changes in Matrix IT and Zap Group:

During the fourth quarter of 2022, Matrix IT made a structural change with respect to its holdings in some of its U.S. based subsidiaries. Prior to the structural change, Matrix IT held, indirectly through subsidiaries, all of the share interest in Matrix IFS and Network Infrastructure Technologies Inc. and 60% of the share interest in Matrix Global Services USA Inc. Post the structural change, which was completed without payment of cash, Matrix IT interest in such U.S. subsidiaries is held through Matrix US Holding LLC.(established for this purpose), with Matrix IT holding 95% of the share interest of Matrix US Holding LLC.

In May 2022, a tax ruling was signed determining that as part of a merger process, one subsidiary of Zap Group will transfer all their assets and liabilities subject to the provisions of section 103 of the Income Tax Ordinance.

b. Non-Israeli subsidiaries:

Non-Israeli subsidiaries are taxed according to the tax laws in their respective countries of residence. Deferred income taxes were provided in relation to undistributed earnings of non-Israeli subsidiaries, which the Group intends to distribute in the near future.

The Group intends to permanently reinvest undistributed earnings in the foreign subsidiaries in which earnings arose, in the vast majority of its subsidiaries. If the earnings, for which deferred taxes were not provided, were distributed in the form of dividends or otherwise, the Group would be subject to additional Israeli income taxes (subject to an adjustment for foreign tax credits) and non-Israeli withholding taxes.

The amount of undistributed earnings of foreign subsidiaries that are considered to be reinvested as of December 31, 2023 and 2022 was \$218,328 and \$185,636, respectively. However, a determination of the amount of the unrecognized deferred tax liability for temporary difference related to those undistributed earnings of foreign subsidiaries is not practicable due to the complexity of the structure of our group of subsidiaries for tax purposes and the difficulty of projecting the amount of future tax liability.

The amount of cash and cash equivalents that were held by the Group's subsidiaries outside of Israel and would have been subject to income taxes if distributed as dividend as of December 31, 2023 and 2022 was \$84,373 and \$81,756, respectively.

c. Tax Reform - United States of America

The U.S. Tax Cuts and Jobs Act of 2017 ("TCJA") was approved on December 22, 2017. This legislation makes significant changes to the U.S. Internal Revenue Code. Such changes include a reduction in the corporate tax rate and limitations on certain corporate deductions and credits, among other changes. The TCJA reduces the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018. In addition, the TCJA makes certain changes to the depreciation rules and implements new limits on the deductibility of certain expenses and deduction. The TCJA introduced the rules for tax on the global intangible low-taxed income ("GILTI") on foreign income in excess of a deemed return on tangible assets of foreign corporations. One of our subsidiaries is subject to GILTI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 23:- INCOME TAX (Cont.)

Except for one U.S. subsidiary which has a share interest in a subsidiary in India and one U.S. subsidiary which have a share interest in several subsidiaries in Europe, all of the Group's other subsidiaries in the United States do not have any foreign subsidiaries and, therefore, the remaining provisions of the TCJA have no material impact on the Group's results of operations.

Starting from 2022, the TCJA requires taxpayers to capitalize research and development expenses with amortization periods over five years for research activities conducted in the United States and over fifteen years for research activities conducted outside of the United States, which has increased the Group's tax liability in the U.S. The tax provision expense has increased from prior year to account for the capitalization of research and development costs in 2022 and 2023.

d. Net operating loss carried forward:

As of December 31, 2023, Formula and its subsidiaries have cumulative losses for tax purposes totaling approximately \$164,842, of which \$114,977 was in respect of Israeli subsidiaries and approximately \$49,865 of which was in respect of subsidiaries abroad.

1) Formula

As of December 31, 2023, Formula stand-alone had cumulative carry forward tax losses in Israel totaling approximately NIS 258,535 thousand (approximately \$71,280), which can be carried forward and offset against taxable income in the future for an indefinite period.

2) Matrix IT

As of December 31, 2023, certain subsidiaries of Matrix IT had operating carry-forward tax losses totaling approximately NIS 44,655 thousand (approximately \$12,312), which resulted from Israeli operations and as such can be carried forward and offset against taxable income in the future for an indefinite period.

3) Magic Software

As of December 31, 2023, certain subsidiaries of Magic Software had operating carry forward tax losses totaling approximately \$27,456, which can be carried forward and offset against taxable income in the future for an indefinite period.

4) Sapiens

As of December 31, 2023, certain subsidiaries of Sapiens had carry-forward tax losses totaling approximately \$37,947. Most of these carry-forward tax losses have no expiration date.

5) Zap

As of December 31, 2023, Zap and certain of its subsidiaries had carry-forward tax losses totaling approximately NIS 26,422 thousand (approximately \$7,285). These carry-forward tax losses have no expiration date.

6) Michpal

As of December 31, 2023, one subsidiary of Michpal had carry-forward tax losses totaling approximately \$547 which have no expiration date.

7) As of December 31, 2023 Insync, Ofek and Shamrad did not have any carry forward tax losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 23:- INCOME TAX (Cont.)

e. Income tax assessments:

Formula and its subsidiaries are routinely examined by various tax authorities. Below is a summary of the income tax assessments of Formula and its subsidiaries:

1) Formula

Formula has received final tax assessments (or assessments that are deemed final) through the tax year 2018.

2) Matrix IT

Matrix IT and part of its Israeli subsidiaries have received final tax assessments through the year 2018 (or assessments that are deemed final).

3) Magic Software

Magic Software and part of its Israeli subsidiaries have received final tax assessments through the year 2018.

4) Sapiens

Sapiens and part of its Israeli subsidiaries have received final tax assessments through the year 2018 (or assessments that are deemed final).

5) Zap Group

Zap Group and its subsidiaries have received final tax assessments (or assessments that are deemed final) through the tax year 2020.

6) Other than those aforementioned subsidiaries, all other Formula's subsidiaries have received final tax assessments (or assessments that are deemed final) through the tax year 2018.

f. Deferred tax liabilities, net:

1) Presentation in consolidated statements of financial position:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Deferred taxes assets	\$ 46,856	\$ 42,027
Deferred tax liabilities	(59,206)	(59,465)
	<u>\$ (12,350)</u>	<u>\$ (17,438)</u>

2) Composition:

	<u>December 31,</u>	
	<u>2023</u>	<u>2022</u>
Net operating losses carried forward	\$ 13,744	\$ 10,296
Intangibles, fixed asset and right-of-use assets	(36,021)	(39,307)
Lease liability	767	(166)
Differences in measurement basis (cash basis for tax purposes)	377	2,213
Other	8,783	9,526
	<u>\$ (12,350)</u>	<u>\$ (17,438)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 23:- INCOME TAX (Cont.)

g. Pre-tax income:

	Year ended December 31,		
	2023	2022	2021
Domestic (Israel)	\$ 126,360	\$ 181,953	\$ 137,213
Foreign	84,674	47,757	46,798
Total	<u>\$ 211,034</u>	<u>\$ 256,710</u>	<u>\$ 184,011</u>

h. Income tax (tax benefit) consist of the following:

	Year ended December 31,		
	2023	2022	2021
Current taxes	\$ 54,743	\$ 75,407	\$ 52,956
Deferred taxes	(8,668)	(20,172)	(10,342)
Total	<u>\$ 46,075</u>	<u>\$ 55,235</u>	<u>\$ 42,614</u>

i. Theoretical tax:

The following table presents reconciliation between the theoretical tax expense, assuming that all income was taxed at statutory tax rates, and the actual income tax expense, as recorded in the Group's consolidated statements of profit or loss:

	Year ended December 31,		
	2023	2022	2021
Income before income taxes, as per the statement of operations	<u>\$ 211,034</u>	<u>\$ 256,710</u>	<u>\$ 184,011</u>
Statutory tax rate in Israel	<u>23%</u>	<u>23%</u>	<u>23%</u>
Tax computed at the statutory tax rate	48,538	59,043	42,323
Non-deductible expenses (non-taxable income) net and tax-deductible costs not included in the accounting costs	3,705	720	3,667
Effect of different tax rates	(874)	(1,273)	852
Release of trapped earnings (see Note 23(a)(2))	-	711	3,531
Effect of "Approved, Beneficiary or Preferred Enterprise" status	(1,907)	(5,579)	(7,338)
Deferred taxes on current losses (utilization of carry forward losses) and temporary differences for which a valuation allowance was provided, net	(2,070)	448	(84)
Undistributed earnings	(260)	(461)	-
Taxes in respect of prior years	558	890	891
Uncertain tax positions	(2,293)	3,065	401
Other	678	(2,329)	(1,629)
Taxes on income	<u>\$ 46,075</u>	<u>\$ 55,235</u>	<u>\$ 42,614</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 23:- INCOME TAX (Cont.)

j. Uncertain tax positions:

A reconciliation of the beginning and ending amount of total unrecognized tax benefits in Formula's subsidiaries is as follows:

Balance as of January 1, 2022	\$ 10,540
Decrease in tax positions	(1,042)
Increase in tax positions	4,455
Statue limitation	(1,012)
Balance as of December 31, 2022	\$ 12,941
Decrease in tax positions	(1,556)
Increase in tax positions	1,573
Statue limitation	(2,115)
Balance as of December 31, 2023	\$ 10,843

Although the Group believes that it has adequately provided for any reasonably foreseeable outcomes related to tax audits and settlement, there is no assurance that the final tax outcome of its tax audits will not be different from that which is reflected in the Group's income tax provisions. Such differences could have a material effect on the Group's income tax provision, cash flow from operating activities and net income in the period in which such determination is made.

The entire balance of unrecognized tax benefits, if recognized, would reduce the Group's annual effective tax rate.

NOTE 24:- SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION

a. Composition of non-controlling interest in material partially-owned subsidiaries:

	December 31,	
	2023	2022
Matrix IT and its subsidiaries	\$ 176,092	\$ 155,886
Sapiens and its subsidiaries	341,124	316,319
Magic Software and its subsidiaries	162,395	151,253
Other	2,812	1,291
	<u>\$ 682,423</u>	<u>\$ 625,049</u>

b.(1) Revenue by products and services was as follows:

	Year ended December 31,		
	2023	2022	2021
Proprietary software and related services	\$ 693,426	\$ 659,470	\$ 632,986
Other products and third party	503,327	494,344	472,045
Services	1,424,150	1,418,543	1,299,345
	<u>\$ 2,620,903</u>	<u>\$ 2,572,357</u>	<u>\$ 2,404,376</u>

b.(2) Revenue by timing of revenue recognition was as follows:

	Year ended December 31,		
	2023	2022	2021
Products and services transferred over time	\$ 2,246,470	\$ 2,251,416	\$ 2,072,841
Products transferred at a point in time	374,433	320,941	331,535
	<u>\$ 2,620,903</u>	<u>\$ 2,572,357</u>	<u>\$ 2,404,376</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 24:- SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (Cont.)

c. Selling, marketing, general and administrative expenses:

	Year ended December 31,		
	2023	2022	2021
Wages and related expenses	\$ 223,351	\$ 214,118	\$ 200,435
Depreciation and amortization	51,632	49,556	46,479
Subcontractors	11,271	11,701	10,746
Advertising	16,959	19,412	15,598
Maintenance and other expenses	23,162	23,169	16,727
Total Selling, marketing, general and administrative expenses	\$ 326,375	\$ 317,956	\$ 289,985

d. The following table provides detailed breakdown of the Group's financial income and expenses:

	Year ended December 31,		
	2023	2022	2021
Financial expenses:			
Financial expenses related to liabilities in respect of business combinations	\$ 775	\$ 1,081	\$ 3,539
Interest expenses on loans and borrowings	18,540	9,837	6,249
Financial costs related to Debentures	3,928	3,775	6,948
Interest expenses attributed to IFRS 16	7,195	4,822	4,873
Derivatives loss	2,991	1,193	-
Bank charges, negative foreign exchange differences and other financial expenses	8,705	6,508	8,385
	\$ 42,134	\$ 27,216	\$ 29,994

	Year ended December 31,		
	2023	2022	2021
Financial income:			
Income from marketable securities and embedded derivative	\$ -	\$ -	\$ 3,338
PPP loan forgiveness	-	1,465	-
Interest income from deposits, positive foreign exchange differences and other financial income	13,800	5,821	2,651
	13,800	7,286	5,989
Financial expenses, net	\$ 28,334	\$ 19,930	\$ 24,005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 24:- SUPPLEMENTARY FINANCIAL STATEMENT INFORMATION (Cont.)

e. Geographical information:

1) The Group's property and equipment is located as follows:

	December 31,	
	2023	2022
Israel	\$ 44,145	\$ 45,994
United States	4,369	3,563
Europe	1,102	1,834
Japan	144	153
Other	3,171	3,427
Total	\$ 52,931	\$ 54,971

2) Revenues:

The Group's revenues classified by geographic area (based on the location of customers) are as follows:

	Year ended December 31,		
	2023	2022	2021
Israel	\$ 1,600,763	\$ 1,571,035	\$ 1,506,566
International:			
United States	644,918	680,325	591,794
Europe	315,081	262,303	255,680
Africa	26,035	26,692	18,012
Japan	11,881	11,333	12,890
Other (mainly Asia pacific)	22,225	20,669	19,434
Total	\$ 2,620,903	\$ 2,572,357	\$ 2,404,376

See Note 2(10) regarding the transaction prices allocated to performance.

f. Earnings per share:

The following table presents the computation of basic and diluted net earnings per share for the Group:

	Year ended December 31,		
	2023	2022	2021
Numerator:			
Basic earnings per share – net income attributable to equity holders of the Company	\$ 64,014	\$ 81,393	\$ 54,585
Diluted earnings per share – net income attributable to equity holders of the Company	\$ 63,878	\$ 80,794	\$ 53,974
Denominator:			
Basic earnings per share – weighted average shares outstanding	15,301	15,296	15,290
Effect of dilutive securities	197	207	114
Diluted earnings per share – adjusted weighted average shares outstanding	15,498	15,503	15,404
Basic net earnings per share	4.19	5.31	3.57
Diluted net earnings per share	4.12	5.21	3.50

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 25: - OPERATING SEGMENTS

a. General:

The Group is engaged through eight directly held subsidiaries— Matrix IT; Sapiens; Magic Software; Michpal, Zap, Insync, Ofek and Shamrad; and one jointly controlled entity: TSG— in providing software services, proprietary and non-proprietary software solutions, software product marketing and support, computer infrastructure and integration solutions and training and integration.

Matrix IT

Matrix IT Ltd. is Israel's leading IT services company. Matrix IT provides software solutions and services, software development projects, outsourcing, integration of software systems and services, project management services and comprehensive consulting and management services in complex infrastructure projects, urban and environment planning – all in accordance with its customers' specific needs. Matrix IT also provides upgrading and expansion of existing software systems.

Matrix IT operates through its directly and indirectly held subsidiaries in the following segments: (1) Information Technology (IT) Software solutions and services, Consulting & Management in Israel; (2) Information Technologies (IT) Software solutions and services in the U.S.; (3) Training and integration; (4) Computer and cloud infrastructure and integration solutions; and (5) Software product marketing and support.

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

The software solutions and services in Israel provided by Matrix IT consist mainly of providing tailored software solutions and upgrading and expanding mainly existing large-scale software systems. These services include, among others, developing customized software, adapting software to the customer's specific needs, implementing software and modifying it based on the customer's needs, outsourcing, software project management, software testing and QA and integrating all or part of the above elements. Furthermore, the activity in this segment includes project management consulting services and multi-disciplinary operational and engineering consulting services, including supervision of complex engineering projects, all according to client specific needs as the scope of work invested in each element varies from one customer to the other. In 2023, activity in software solutions and value-added services in Israel accounted for approximately 55% of Matrix IT's revenues and approximately 48% of its operating income.

Information Technologies (IT) Software solutions and services in the United States:

Matrix IT's activities in this segment are performed by two lines of business – Matrix US Holdings and Xtivia. The two line of business primarily provide software solutions and services of Governance Risk and Compliance ("GRC") experts, including activities on the following topics: risk management, management and fraud prevention, anti-money laundering, trade surveillance as well as, specialized advisory services in the area of compliance with financial regulation and operational services, as well as solutions and specialized technological services in areas such as: portals, BI (Business Intelligence) DBA (Data Base Administration), CRM (Customer Relation Management) and EIM (Enterprise Information Management). Furthermore, the activity in this segment includes dedicated solutions for the GovCon Government contracting market, IT help desk services specializing in healthcare and software product distribution services particularly IBM, BMC and Atlassian products to customers in the public-government sector in the U.S.. In 2023, the activity in the U.S. accounted for approximately 9% of Matrix IT's revenues and approximately 19% of its operating income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 25: - OPERATING SEGMENTS (Cont.)*Training and integration:*

Matrix IT's activities in this segment consist of operating a network of high-tech training and instruction centers which 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. Matrix IT also outsources IT services based on graduates of its courses. In 2023, activity in training and integration accounted for approximately 3% of Matrix IT's revenues and for approximately 3% of its operating income.

Computer and cloud infrastructure and integration solutions:

Matrix IT's activities in this segment, is 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 a myriad of services and products regarding office automation and printing solutions, representation of global 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, provision of industrial video and image processing solutions as well as Database services and Big data services (through the specialized business unit Data zone). In 2023, activity in computer and cloud infrastructure and integration solutions accounted for approximately 27% of Matrix IT's revenues and for approximately 21% of its operating income.

Software product marketing and support:

Matrix IT's activities in this segment include marketing, distributing and support for various software products, web world content management, database and data warehouse mining, application integration, database and systems, data management and software development tools. In 2023, activity in software product marketing and support accounted for approximately 6% of Matrix IT's revenues and approximately 9% of its operating income.

Sapiens

Sapiens is a leading global provider of software solutions for the insurance industry. Sapiens' extensive expertise is reflected in its innovative software, solutions and professional services for property & casualty (P&C); reinsurance; life, pension & annuity (L&A); workers' compensation (WC); medical professional liability (MPL); financial & compliance (F&C); and decision modelling for both insurance and financial markets. Sapiens offers an end-to-end solutions for insurers core systems, as well as complementary data & analytics and digital. Importantly its wide array of professional services ensures that Sapiens not only makes a sale but accompanies and guides its customers on their path to digital transformation and bring important insights from the field into its products roadmap. Sapiens' offerings not only enable its customers to effectively manage their core business functions – including policy administration, claims and billing – they support insurers on their path to digital transformation. Its portfolio also provides a variety of complimentary solutions for critical requirements such as reinsurance management, underwriting management, illustration software, electronic applications and financial compliance tools. The latest versions of its platforms possess modern, modular cloud-first architecture and are digital-driven, providing full coverage for all business aspects of policy management, digital engagement and data analysis. They empower customers to respond to the rapidly changing insurance market and frequent regulatory changes, while improving the efficiency of their core operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data****NOTE 25: - OPERATING SEGMENTS (Cont.)****Magic Software**

Magic Software is a global provider of: (i) software services and Information Technologies (“IT”) outsourcing software services; (ii) proprietary application development and business process integration platforms; (iii) selected packaged vertical software solutions; as well as (iv) cloud based services for end to end digital transformation. Magic Software’s technology is used by customers to develop, deploy and integrate on-premise, mobile and cloud-based business applications quickly and cost effectively. In addition, Magic Software’s technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment.

With respect to software services and IT outsourcing services, Magic Software offers a vast portfolio of professional services in the areas of infrastructure design and delivery, application development, technology consulting planning and implementation services, integration projects, project management, software testing and quality assurance, engineering consulting (including supervision of engineering projects), support services, cloud computing for deployment of highly available and massively-scalable applications and API’s and supplemental outsourcing services, all according to the specific needs of the customer, and in accordance with the professional expertise required in each case.

In addition, Magic Software offers a variety of proprietary comprehensive packaged software solutions through certain of its subsidiaries for (i) enterprise-wide and fully integrated medical platform (“Clicks”), specializing in the design and management of patient-file oriented software solutions for managed care and large-scale health care providers. This platform aims to allow providers to securely access an individual’s electronic health record at the point of care, and it organizes and proactively delivers information with potentially real time feedback to meet the specific needs of physicians, nurses, laboratory technicians, pharmacists, front- and back-office professionals and consumers; (ii) enterprise management systems for both hubs and traditional air cargo ground handling operations from physical handling and cargo documentation through customs, seamless electronic data interchange, or EDI communications, dangerous goods, special handling, track and trace, security to billing (“Hermes”); (iii) enterprise human capital management, or HCM, solutions, to facilitate the collection, analysis and interpretation of quality data about people, their jobs and their performance, to enhance HCM decision making (“HR Pulse”); (iv) revenue management and monetization solutions in mobile, wireline, broadband and mobile virtual network operator/enabler, or MVNO/E (“Leap”); (v) comprehensive systems for managing broadcast channels in the area of TV broadcast management through cloud-based on-demand service or on-premise solutions; (vi) comprehensive solution for sales and distribution field activities, such as order taking, route accounting, trade marketing, retail execution, proof of deliveries and B2B E-commerce (“Mobisale”); and (vii) comprehensive solution for efficient management of all types of rehabilitation centers (“Nativ”).

Magic Software solutions are used by customers to develop, deploy and integrate on-premise, mobile and cloud-based business applications quickly and cost effectively. In addition, its technology enables enterprises to accelerate the process of delivering business solutions that meet current and future needs and allow customers to dramatically improve their business performance and return on investment. Its software solutions include application platforms for developing and deploying specialized and high-end large-scale business applications (Magic xpa application platform, formerly branded uniPaaS, Appbuilder and Magic SmartUX), an integration platform that allows the integration and interoperability of diverse solutions, applications and systems in a quick and efficient manner (Magic xpi business and process integration platform, formerly branded iBOLT), Magic BusinessEye – a cloud-based platform for all verticals enabling smooth end-to-end digital transformation and full organizational business intelligence and FactoryEye - a proprietary high performance, low-code, flexible, hybrid platform for manufacturers based on existing infrastructure enabling real-time virtualizations of all production data and advanced analytics (based on machine learning) for improved productivity and competitive advantage. These solutions enable Magic Software customers to improve their business performance and return on investment by supporting the affordable and rapid delivery and integration of business applications, systems and databases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 25: - OPERATING SEGMENTS (Cont.)

Magic Software products and services are available through a global network of regional offices, independent software vendors, system integrators, distributors and value-added resellers as well as original equipment manufacturers and consulting partners in approximately 50 countries.

Insync

InSync is a U.S. based national supplier of employees to Vendor Management Systems (VMS) Workforce Management Program accounts. InSync specializes in providing professionals in the following areas; Accounting and Finance, Administrative, Customer Service, Clinical, Scientific and Healthcare, Engineering, Manufacturing and Operations, Human Resources, IT Technology, LI/MFG, and Marketing and Sales. InSync currently supports more than 30 VMS program customers with employees in over 40 states.

Michpal

Michpal, an Israeli registered company, is a developer of proprietary, on-premise payroll software solution for processing traditional payroll stubs to Israeli enterprises and payroll service providers. Michpal also developed several complementary modules such as attendance reporting, which are sold to its customers for additional fees. Together with its subsidiaries Unique Software Industries Ltd, a software development and services company, providing integrated solutions in the field of payroll for more than 30 years, including pay-stubs, pension services management, education funds management, and software solutions for managing employee attendance, and Effective Solutions Ltd Michpal also provides consulting services in the fields of operational cost savings and procurement, as well as salary control and monitoring a payroll, labor, pensions, social security and employee income tax matters. As of December 31, 2023, Michpal serves approximately 8,000 customers, most of which are long-term customers.

Zap Group

Zap Group, is Israel's largest group of consumer websites which manages more than twenty leading consumer websites from diverse content worlds with a total of more than 17 million visits per month, including Zap Price Comparison website, Zap Yellow Pages (the largest business index in Israel) and Zap Rest (Israel's restaurants index). Zap Group, an Israeli private company, provides a variety of digital advertising solutions for its customers (small and medium businesses in Israel) and an access to an E-commerce platform to allow them engage with their consumers. Zap Group serves over 400,000 listed businesses on its platforms; approximately 16,000 of them are paying customers. The websites managed and offered by Zap Group offer consumers a user-friendly search experience with a variety of advanced tools, which enable them to make educated purchase decisions in the best and most informed way.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 25: - OPERATING SEGMENTS (Cont.)*Digital Solutions*

Zap Group provides a variety of digital advertising solutions for its customers (small and medium businesses in Israel) and an access to an E-commerce platform that allows them to engage with their consumers. Zap Group regularly seeks to develop attractive digital solutions, which it believes to have market potential for small and medium businesses and their end user. All of Zap Group's investments in this area have been proven, where we believe we can leverage our experience to enhance product positioning and increase market penetration. We provide our management and technical and financial expertise, marketing experience to help bring these products to market.

E-commerce Solutions

Zap Group provides an e-commerce platform for approximately 1,500 large, medium and small businesses, which operate stores in Israel. The platform, both website and application, allow end users to compare prices of the various stores for over 1.2 million products in 650 categories. The platform provides to more than 120 million visiting end users annually, 300,000 reviews of stores and products and 5,000 quality guides (videos and articles), which allow them to engage through the platform directly with the stores for a purchase of a certain product they looked at through the platform. Total online purchases through the platform is estimated at approximately NIS 2 billion annually, which is estimated at 14% out of total online purchase volume in Israel (not including food and beverage).

In 2021, Zap Group launched a new website for car sellers and buyers, which provides a marketplace where buyers can explore on one website various options for buying a second-hand car (B2C). The platform allows the buyer to compare prices, specs, financing, peripheral services, accessories and overall packages. The Online, real-time supply availability enables transparency, and also provides the buyer an aggregated view of specific sellers and agencies and a direct contact with a large pool of sellers

Digital platforms

Zap Group provides digital advertising platforms and services through 18 websites for medium and small businesses in 1,600 business categories in Israel, including doctors, lawyers, and other service and product providers. The platform, both website and application allow end users to contact directly with the service provider. The platform provides to more than 50 million visiting end users annually, 200,000 reviews, 2,000 quality guides (videos and articles), 300 price lists, and 700 forums with more than 1.5 million expert explanations.

Zap Group also provides its customers other digital services as Search Engine Marketing (Pay Per Click Google and Facebook campaigns) and Search Engine Optimization for their websites. Zap Group also provides website design services, creation of new websites on various tools (ZAP-X), management of social media, online business cards (GMB), and big data services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands, except share and per share data**

NOTE 25: - OPERATING SEGMENTS (Cont.)*Restaurants and events*

Zap Group provides digital advertising platforms and services for more than 17,000 restaurants listed and provides services for social events. Approximately 2,500 of them are paying customers. The platform, both website and application allow end users to directly contact the restaurant for table ordering, ordering of delivery or take away, to post visit reviews or explore the restaurant menu, photo gallery and other content such as articles, etc. The platform provides to more than 30 million visiting end users annually, approximately two million food deliveries, 200,000 reviews, 5,000 food and culinary articles (videos and articles), and more than 0.5 million push updates annually.

Other

Zap Group provides digital advertising platform for domestic travel and hospitality businesses in Israel (the "Platform"). The platform, both website and application, allows end users to order directly from the provider (hotel, guesthouse or attraction service provider). The platform provides access to millions of visiting end users annually, to approximately 1,200 vacation and leisure locations.

Ofek

Founded in 1987, Ofek is one of the leading companies in Israel in the fields of aerial and satellite mapping, geographic data collection and processing, and provider of services in numerous geographic applications. Among Ofek's customers are many government authorities and foreign government. Ofek employs approximately 100 employees, all situated at Ofek's headquarter in Natanya, Israel, in multiple areas of expertise: geodetic engineers, software experts, geographers and aerial photo interpreters, GIS and surveying engineers, 3D mapping and data processing experts. The company owns three aerial photography aircrafts equipped with state-of-the-art mapping sensors. Ofek operates worldwide. It has successfully completed projects for various clients (government and private) in Asia, America, Europe, Middle East and Africa, and it constantly involved in ongoing international geographic projects. Ofek aerial photography has accumulated experience in managing and executing NSDI and GIS projects and surveys for detecting, collecting and analyzing diverse geographic cadastral and environmental information.

TSG

TSG is a global high-technology company engaged in high-end technical solutions for protecting the safety of national borders, improving data gathering mechanisms, and enhancing communications channels for military, homeland security and civilian organizations.

TSG operates primarily in the defense and homeland security arenas. The nature of military and homeland security actions in recent years, including low intensity conflicts and ongoing terrorist activities, as well as budgetary pressures to focus on leaner but more technically advanced forces, have caused a shift in the defense and homeland security priorities for many of TSG's major customers. As a result, TSG believes there is a continued demand in the areas of command, control, communications, computer and intelligence (C4I) systems, intelligence, surveillance and reconnaissance (ISR) systems, intelligence gathering systems, border and perimeter security systems, cyber-defense systems. There is also a continuing demand for cost-effective logistic support and training and simulation services. TSG believes that its synergistic approach of finding solutions that combine elements of its various activities positions it to meet evolving customer requirements in many of these areas. TSG tailors and adapts its technologies, integration skills, market knowledge and operationally-proven systems to each customer's individual requirements in both existing and new platforms. By upgrading existing platforms with advanced technologies, TSG provides customers with cost-effective solutions, and its customers are able to improve their technological and operational capabilities within limited budgets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 25: - OPERATING SEGMENTS (Cont.)

TSG markets its systems and products either as a prime contractor or as a subcontractor to various governments and defense and homeland security contractors worldwide. In Israel, TSG sells its defense, intelligence and homeland security systems and products mainly to the IMOD, which procures all equipment for the Israeli Defense Force (IDF).

Shamrad

Shamrad is an Israeli private company, engaged in the supply, integration and installation of computer communication infrastructures, announcement and alarm systems and electronic security systems. Shamrad represents several companies in the field of security: ATI systems – sirens, Garrett – Metal detectors, Kopp – Ferro Magnetic detectors for MRI rooms. Shamrad holds vast experience in design, supply and installation of security systems, integrated with command and control solutions, CCTV, access control and intruder detection. Shamrad provides video solutions together with high speed networks and wireless links, allowing hundreds of camera channels to be viewed in one or many control centers. Shamrad installs IP and analog cameras in various configurations such as, Bullet, Dome, PTZ, Box, and Thermal. Shamrad offers customers complete solutions for communications and telephony infrastructure, both in the fields of passive and active equipment. Amongst the services offered are installation and maintenance of networks (local and wireless) and specific dedicated communications rooms. Shamrad has, since it's inception, a dedicated department offering a complete and professional solution, with a system wide view tailored to exactly meet our customers' requirements.

b) Consolidated Goodwill in material partially owned subsidiaries:

	December 31,	
	2023	2022
Matrix IT and its subsidiaries	\$ 285,596	\$ 288,235
Sapiens and its subsidiaries	401,699	397,613
Magic Software and its subsidiaries	166,065	158,699
Michpal and its subsidiaries	44,108	40,603
ZAP and its subsidiaries	32,186	33,081
Other consolidated subsidiaries	6,927	7,930
	<u>\$ 936,581</u>	<u>\$ 926,161</u>

c) Reporting on operating segments:

The operating segments are identified on the basis of information that is reviewed by the chief operating decision maker ("CODM") to make decisions about resources to be allocated and assesses its performance. The CODM has been identified as Formula's CEO. The CODM assesses the performance of the Group based on each of the Group's directly held subsidiaries and company accounted for at equity operating income (or loss). Headquarters and finance expenses of Formula are allocated proportionally among the investees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 25: - OPERATING SEGMENTS (Cont.)

	<u>Matrix IT</u>	<u>Sapiens</u>	<u>Magic Software</u>	<u>Michpal</u>	<u>ZAP Group</u>	<u>Other</u>	<u>Adjustments</u>	<u>Total</u>
Year ended December 31, 2023:								
Revenues from external customers	\$ 1,416,283	\$ 514,584	\$ 531,415	\$ 36,912	\$ 45,286	\$ 156,662	\$ (80,239)	\$ 2,620,903
Inter-segment revenues	3,579	-	3,637	-	-	525	(7,741)	-
Total revenues	\$ 1,419,862	\$ 514,584	\$ 535,052	\$ 36,912	\$ 45,286	\$ 157,187	\$ (87,980)	\$ 2,620,903
Depreciation and amortization	\$ 55,230	\$ 30,147	\$ 20,553	\$ 4,801	\$ 8,090	\$ 7,950	(5,582)	121,189
Segment operating income	\$ 106,831	\$ 80,070	\$ 57,108	\$ 6,366	\$ (3,126)	\$ 9,492	\$ (6,896)	\$ 249,845
Unallocated corporate expenses								(10,477)
Total operating income								\$ 239,368
Financial expenses, net								(28,334)
Group's share of profits of companies accounted for at equity, net								773
Taxes on income								(46,075)
Net income								\$ 165,732

	<u>Matrix IT</u>	<u>Sapiens</u>	<u>Magic Software</u>	<u>Michpal</u>	<u>ZAP Group</u>	<u>Other</u>	<u>Adjustments</u>	<u>Total</u>
Year ended December 31, 2022:								
Revenues from external customers	\$ 1,388,508	\$ 474,736	\$ 561,682	\$ 37,714	\$ 49,893	\$ 133,526	\$ (73,702)	\$ 2,572,357
Inter-segment revenues	4,310	-	5,110	309	-	360	(10,089)	-
Total revenues	\$ 1,392,818	\$ 474,736	\$ 566,792	\$ 38,023	\$ 49,893	\$ 133,886	\$ (83,791)	\$ 2,572,357
Depreciation and amortization	\$ 48,288	\$ 33,050	\$ 19,804	\$ 4,770	\$ 7,976	\$ 6,214	(4,794)	115,308
Segment operating income	\$ 149,298	\$ 66,164	\$ 61,762	\$ 8,117	\$ (1,042)	\$ 8,311	\$ (5,345)	\$ 287,265
Unallocated corporate expenses								(10,625)
Total operating income								\$ 276,640
Financial expenses, net								(19,930)
Group's share of profits of companies accounted for at equity, net								(1,808)
Taxes on income								(55,235)
Net income								\$ 199,667

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share and per share data

NOTE 25: - OPERATING SEGMENTS (Cont.)

	Matrix IT	Sapiens	Magic Software	Michpal	ZAP Group	Other	Adjustments	Total
Year ended December 31, 2021:								
Revenues from external customers	\$ 1,344,088	\$ 461,035	\$ 477,643	\$ 32,087	\$ 51,640	\$ 127,641	\$ (89,758)	\$ 2,404,376
Inter-segment revenues	6,529	-	2,682	-	-	-	(9,211)	-
Total revenues	\$ 1,350,617	\$ 461,035	\$ 480,325	\$ 32,087	\$ 51,640	\$ 127,641	\$ (98,969)	\$ 2,404,376
Depreciation and amortization	\$ 45,736	\$ 45,732	\$ 19,837	\$ 4,023	\$ 7,486	\$ 3,776	\$ (4,406)	\$ 122,184
Segment operating income	\$ 102,054	\$ 44,210	\$ 59,785	\$ 6,838	\$ 5,962	\$ 3,841	\$ (3,519)	\$ 219,171
Unallocated corporate expenses								(11,155)
Total operating income								\$ 208,016
Financial expenses, net								(24,005)
Group's share of profits of companies accounted for at equity, net								505
Taxes on income								(42,614)
Net income								\$ 141,902

NOTE 26: - SUBSEQUENT EVENTS

- In March 2024, Formula declared a cash dividend of approximately NIS 35.3 million (approximately \$10.0 million) or NIS 2.3 per share (approximately \$0.63 per share) to shareholders of record on April 4, 2024 that was paid on April 18, 2024.
- On April 4, 2024, Magic Software acquired Theoris, Inc. ("Theoris"), a U.S. based full-services company, specializes in IT staffing and recruiting, for a total consideration of \$12,500, of which \$10,000 was paid upon closing and the remaining \$2,500 was payable in two equal installments following the first- and second-year anniversaries.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Magic Software Japan K. K.

Opinion on the Financial Statements

We have audited the accompanying statements of financial position of Magic Software Japan K.K. (the “Company”) December 31, 2022 and December 31, 2023, and the related statements of profit or loss, comprehensive income, changes in equity, and cash flows and for each of the three years in the period ended December 31, 2023, and the related notes (collectively referred to as the “financial statements”). In our opinion, based on our audits the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2022 and December 31, 2023, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), (PCAOB), the Company’s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated May 13, 2024 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Tokyo, Japan

May 13, 2024

/s/ KDA Audit Corporation

KDA Audit Corporation

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of

MAGIC SOFTWARE JAPAN K. K.

Opinion on Internal Control over Financial Reporting

We have audited Magic Software Japan K. K.'s internal control over financial reporting as of December 31, 2023, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, based on our audit, Magic Software Japan K. K. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2022 and 2023, the related statements of profit or loss, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2023 and the related notes, and our report dated May 13, 2024 expressed an unqualified opinion thereon based on our audit.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining and understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting 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.

Tokyo, Japan

May 13, 2024

/s/ KDA Audit Corporation
KDA Audit Corporation

Description of Formula Systems (1985) Ltd. American Depositary Shares

Authorized Share Capital

The authorized share capital of Formula Systems (1985) Ltd. (hereinafter, “Formula”, “we”, “us”, “our” or similar expressions) consists of 25,000,000 New Israeli Shekels, or NIS, divided into 25,000,000 ordinary shares, par value NIS 1 per share, or ordinary shares. Some of the ordinary shares may be represented from time to time by American Depositary Shares, or ADSs, which represent ordinary shares on a one-for-one basis. As of April 30, 2024, we had 15,332,667 ordinary shares (including shares subject to restrictions and repurchase by us) issued and outstanding, of which 141,398 shares were represented by ADSs that have been issued pursuant to a depositary agreement with The Bank of New York Mellon and which represent approximately 0.92% of our outstanding ordinary shares.

Registration Number and Purposes of the Company

Our registration number with the Israeli Registrar of Companies is 52-003669-0. Our objects are specified in our memorandum of association. Those objects include:

- operating within the field of informational and computer systems;
- providing management, consulting and sale services for computers, computer equipment, software for computers and for information systems;
- operating a business of systems analysis, systems programming and computer programming; and
- establishing facilities for instruction and training for computers and digital systems.

Voting Rights

All ordinary shares have identical voting and other rights in all respects.

Transfer of Shares

Our fully paid ordinary shares are issued in registered form and may be freely transferred under our amended and restated articles of association, or the articles, unless the transfer is restricted or prohibited by another instrument, applicable law or the rules of a stock exchange on which the shares are listed for trade. The ownership or voting of our ordinary shares by non-residents of Israel is not restricted in any way by our articles or the laws of the State of Israel, except for ownership by nationals of some countries that are, or have been, in a state of war with Israel.

Election and Removal of Directors

Our ordinary shares do not have cumulative voting rights for the election of directors. As a result, the holders of a majority of the voting power represented at a shareholders meeting have the power to elect all of our directors, subject to the special approval requirements for external directors.

Under our articles of association, or articles, our board of directors must consist of not less than three but no more than eleven directors, including at least two external directors who serve pursuant to the Israeli Companies Law, 5759-1999, or the Companies Law. The actual number of directors may be adjusted from time to time by resolution of our shareholders. Pursuant to the Companies Law, each of our directors (other than external directors, for whom special election requirements apply under the Companies Law) is elected by a simple majority vote of holders of our voting shares, participating and voting at each annual general meeting of our shareholders. In addition, our directors (other than the external directors, who are elected for a term of three years each time under the Companies Law and who can only be removed under special circumstances under the Companies Law) are elected for a one-year term, until the next annual general meeting of our shareholders, and serve on our board of directors unless they are removed by a vote of our shareholders at a general meeting of our shareholders or upon the occurrence of certain events, in accordance with the Companies Law. Our articles allow our board of directors to fill vacancies on the board (including vacancies caused by an expansion of the size of the board of directors by our shareholders).

Under the Companies Law regulations, Israeli public companies whose shares are traded in the United States and that lack a controlling shareholder are not required to, and may elect not to, have external directors serving on the board of directors. Because we have a controlling shareholder (Asseco Poland S.A.), we are not eligible for that exemption.

Dividend and Liquidation Rights

We may declare a dividend to be paid to the holders of our ordinary shares in proportion to their respective shareholdings. Under the Companies Law, dividend distributions are determined by the board of directors and do not require the approval of the shareholders of a company unless the company's articles of association provide otherwise. Our articles do not require shareholder approval of a dividend distribution and provide that dividend distributions may be determined by our board of directors.

Pursuant to the Companies Law, the distribution amount is limited to the greater of retained earnings or earnings generated over the previous two years, according to our then last reviewed or audited financial statements, provided that the end of the period to which the financial statements relate is not more than six months prior to the date of the distribution. If we do not meet such criteria, we may only distribute dividends with court approval. An equity repurchase is generally treated as a deemed dividend for purposes of these limitations on dividend distributions. However, for a company such as ours listed on an exchange outside of Israel, even if we lack the requisite retained earnings or earnings, we still do not need to seek court approval for an equity repurchase, provided that we notify our creditors of the proposed equity repurchase and allow such creditors an opportunity to initiate a court proceeding to review the repurchase. If within 30 days of such notification, creditors do not file an objection, we may proceed with the repurchase without obtaining court approval. In each case, we are only permitted to distribute a dividend (or effect equity repurchases) if our board of directors and the court, if applicable, determines that there is no reasonable concern that payment of the dividend (or the repurchases) will prevent us from satisfying our existing and foreseeable obligations as they become due.

In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of our ordinary shares in proportion to their shareholdings. That right, as well as the right to receive dividends, may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Exchange Controls

There are currently no Israeli currency control restrictions on remittances of dividends on our ordinary shares, proceeds from the sale of the shares or interest or other payments to non-residents of Israel, except for shareholders who are subjects of countries that are, or have been, in a state of war with Israel.

Shareholder Meetings

Under Israeli law, we are required to hold an annual general meeting of our shareholders once every calendar year that must be held no later than 15 months after the date of the previous annual general meeting. All meetings other than the annual general meeting of shareholders are referred to in our articles as special general meetings. Our board of directors may call special general meetings whenever it sees fit, at such time and place, within or outside of Israel, as it may determine. In addition, the Companies Law provides that our board of directors is required to convene a special general meeting upon the written request of (i) any two of our directors or one-quarter of the members of our board of directors or (ii) since our ADSs are listed on an exchange in the U.S., one or more shareholders holding, in the aggregate, either (a) 10% or more of our outstanding issued shares and 1% of our outstanding voting power or (b) 10% or more of our outstanding voting power.

Subject to the provisions of the Companies Law and the regulations promulgated thereunder, shareholders entitled to participate and vote at general meetings are the shareholders of record on a date to be decided by the board of directors, which, under a recent amendment to the Companies Law regulations, may be between four and 60 days prior to the date of the meeting. Under our articles, however, the upper limit for such a record date is 40 days prior to a general meeting, and we are bound by that limit. The Companies Law requires that resolutions regarding the following matters must be passed at a general meeting of our shareholders:

- amendments to our articles;
- appointment or termination of our auditors;
- appointment of external directors;
- approval of certain related party transactions;
- increases or reductions of our authorized share capital;
- a merger; and
- the exercise of our board of directors' powers by a general meeting, if our board of directors is unable to exercise its powers and the exercise of any of its powers is required for our proper management.

The Companies Law and our articles require that notice of any annual general meeting or special general meeting be provided to shareholders at least 21 days prior to the meeting and if the agenda of the meeting includes, among other matters, the appointment or removal of directors, the approval of transactions with office holders or interested or related parties, approval of the company's chief executive officer (referred to under the Companies Law as the general manager) to serve as the chairman of its board of directors or an approval of a merger, notice must be provided at least 35 days prior to the meeting.

The Companies Law allows one or more of our shareholders holding at least 1% of the voting power of a company to request the inclusion of an additional agenda item for an upcoming shareholders meeting, assuming that it is appropriate for debate and action at a shareholders meeting. For a company such as ours listed on an exchange outside of Israel, recently-adopted Companies Law regulations provide that a matter relating to the appointment or removal of a director may only be requested by one or more shareholders holding at least 5% of the voting rights. Our articles currently allow a shareholder holding 1% or more of our voting power to request inclusion of an agenda item, so currently we are unable to utilize the 5% threshold for a director appointment or removal request set by the Companies Law regulations. Under applicable regulations, a shareholder request regarding a shareholder meeting agenda item must be submitted within three or, for certain requested agenda items, seven days following our publication of notice of the meeting. If the requested agenda item includes the appointment of director(s), the requesting shareholder must comply with particular procedural and documentary requirements. If our board of directors determines that the requested agenda item is appropriate for consideration by our shareholders, we must publish an updated notice that includes such item within seven days following the deadline for submission of agenda items by our shareholders. The publication of the updated notice of the shareholders meeting does not impact the record date for the meeting. In lieu of this process, we may opt to provide pre-notice of our shareholders meeting at least 21 days prior to publishing official notice of the meeting. In that case, our 1% shareholders are given a 14-day period following the pre-notice in which to submit proposed agenda items, after which we would have seven days to publish notice of the meeting that includes any accepted shareholder proposals.

Under the Companies Law, shareholders of a public company such as ours are not permitted to take action by way of written consent in lieu of a meeting.

Voting Rights

Quorum Requirements

Pursuant to our articles, holders of our ordinary shares have one vote for each ordinary share held on all matters submitted to a vote before the shareholders at a general meeting. Under our articles, the quorum required for our general meetings of shareholders consists of at least two shareholders present in person, by proxy or written ballot who hold or represent between them at least 25% of the total outstanding voting rights. A meeting adjourned for lack of a quorum is generally adjourned to the same day in the following week at the same time and place, or to such day and at such time and place as the Chairman of the meeting may determine with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. At the reconvened meeting, if a quorum is not present within half an hour from the time appointed for holding the meeting, any two shareholders present in person or by proxy, shall constitute a quorum (subject to rules and regulations, if any, applicable to Formula).

Vote Requirements

Our articles provide that all resolutions of our shareholders require a simple majority vote of shares present and voting at a general meeting, unless otherwise required by the Companies Law or by our articles.

There are various exceptions to the foregoing simple majority rule. Under the Companies Law, each of (i) the approval of an extraordinary transaction with a controlling shareholder and (ii) the terms of employment or other engagement of the controlling shareholder of the company or such controlling shareholder's relative (even if such terms are not extraordinary) require the approval of the company's audit committee (or compensation committee with respect to compensation arrangements), board of directors and shareholders, in that order. In addition, the shareholder approval must fulfill one of the following requirements:

- at least a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting at the meeting approves the transaction, excluding abstentions; or
- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

Additional exceptions to the foregoing simple majority rule under the Companies Law include the following:

(a) The approval and extension of a compensation policy and certain deviations therefrom require the approval of compensation committee, board of directors and shareholders, in that order. The shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation policy; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation policy and who vote against the policy does not exceed 2% of the company's aggregate voting rights;

(b) The terms of employment or other engagement (or an amendment thereto) of the chief executive officer of the company require compensation committee, board of directors and shareholders, in that order. The shareholder approval must be by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such compensation; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest in the compensation and who vote against the compensation does not exceed 2% of the company's aggregate voting rights;

(c) The chairman of a company's board of directors also serving as its chief executive officer requires the same special majority approval as applies to (i) and (ii) above (substituting the personal interest in the service of the chairman as chief executive officer in place of personal interest in the compensation policy or compensation);

(d) The election or reelection of external directors, which requires approval by a majority vote of the shares present and voting at a meeting of shareholders called for such purpose, provided that either: (a) such majority includes at least a majority of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest (other than a personal interest not deriving from a relationship with a controlling shareholder) in such (re-)election; or (b) the total number of shares of non-controlling shareholders who do not have a personal interest (other than a personal interest not deriving from a relationship with a controlling shareholder) in the (re-)election and who vote against the (re-)election does not exceed 2% of the company's aggregate voting rights);

(e) The voluntary winding up, or an approval of a scheme of arrangement or reorganization, of the company pursuant to Section 350 of the Companies Law requires the approval of holders of 75% of the voting rights represented at a general meeting, in person or by proxy, and voting on the resolution.

Access to Corporate Records

Under the Companies Law, shareholders are provided access to: minutes of our general meetings; our shareholders register and principal shareholders register, articles of association and annual audited financial statements; and any document that we are required by law to file publicly with the Israeli Companies Registrar or the Israel Securities Authority. These documents are publicly available and may be found and inspected at the Israeli Registrar of Companies. In addition, shareholders may request to be provided with any document related to an action or transaction requiring shareholder approval under the related party transaction provisions of the Companies Law. We may deny this request if we believe it has not been made in good faith or if such denial is necessary to protect our interest or protect a trade secret or patent.

Modification of Class Rights

Under our articles, if at any time our share capital is divided into different classes of shares, the rights attached to any class of share, such as voting, liquidation and dividend rights, may be amended by adoption of a resolution by the holders of a majority of the issued shares of that class present and voting at a separate general meeting of the holders of the shares of that class.

Acquisitions under Israeli Law

Full Tender Offer.

A person wishing to acquire shares of an Israeli public company and who would as a result hold over 90% of the target company's issued and outstanding share capital is required by the Companies Law to make a tender offer to all of the company's shareholders for the purchase of all of the issued and outstanding shares of the company. A person wishing to acquire shares of a public Israeli company and who would as a result hold over 90% of the issued and outstanding share capital of a certain class of shares is required to make a tender offer to all of the shareholders who hold shares of the relevant class for the purchase of all of the issued and outstanding shares of that class. If the shareholders who do not accept the offer hold less than 5% of the issued and outstanding share capital of the company or of the applicable class, and more than half of the shareholders who do not have a personal interest in the offer accept the offer, all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, a tender offer will also be accepted if the shareholders who do not accept the offer hold less than 2% of the issued and outstanding share capital of the company or of the applicable class of shares.

Upon a successful completion of such a full tender offer, any shareholder that was an offeree in such tender offer, whether such shareholder accepted the tender offer or not, may, within six months from the date of acceptance of the tender offer, petition an Israeli court to determine whether the tender offer was for less than fair value and that the fair value should be paid as determined by the court. However, under certain conditions, the offeror may include in the terms of the tender offer that an offeree who accepted the offer will not be entitled to petition the Israeli court as described above.

If a tender offer is not accepted in accordance with the requirements set forth above, the acquirer may not acquire shares from shareholders who accepted the tender offer that will increase its holdings to more than 90% of the company's issued and outstanding share capital or of the applicable class.

Special Tender Offer.

The Companies Law provides that an acquisition of shares of an Israeli public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of 25% or more of the voting rights in the company. This requirement does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, the Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, subject to certain exceptions.

A special tender offer must be extended to all shareholders of a company, but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (i) the offeror acquired shares representing at least 5% of the voting power in the company and (ii) the number of shares tendered by shareholders who accept the offer exceeds the number of shares held by shareholders who object to the offer (excluding the purchaser, controlling shareholders, holders of 25% or more of the voting rights in the company or any person having a personal interest in the acceptance of the tender offer, including their relatives and companies under their control). If a special tender offer is accepted, the purchaser or any person or entity controlling it or under common control with the purchaser or such controlling person or entity may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger

The Companies Law permits merger transactions if approved by each party's board of directors and, unless certain requirements described under the Companies Law are met, by a majority vote of each party's shareholders. In the case of the target company, approval of the merger further requires a majority vote of each class of its shares.

For purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares represented at the meeting of shareholders that are held by parties other than the other party to the merger, or by any person (or group of persons acting in concert) who holds (or hold, as the case may be) 25% or more of the voting rights or the right to appoint 25% or more of the directors of the other party, vote against the merger. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders (as described above under "Vote Requirements").

If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the petition of holders of at least 25% of the voting rights of a company. For such petition to be granted, the court must find that the merger is fair and reasonable, taking into account the respective values assigned to each of the parties to the merger and the consideration offered to the shareholders of the target company.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of the merging entities, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated unless at least 50 days have passed from the date on which a proposal for approval of the merger is filed with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

Anti-takeover Measures under Israeli Law

The Companies Law allows us to create and issue shares having rights different from those attached to our ordinary shares, including shares providing certain preferred rights with respect to voting, distributions or other matters and shares having preemptive rights. No preferred shares are authorized under our articles. In the future, if we do authorize, create and issue a specific class of preferred shares, such class of shares, depending on the specific rights that may be attached to it, may have the ability to frustrate or prevent a takeover or otherwise prevent our shareholders from realizing a potential premium over the market value of their ordinary shares. The authorization and designation of a class of preferred shares will require an amendment to our articles, which requires the prior approval of the holders of a majority of the voting power of our issued and outstanding shares present and voting at a general meeting. The convening of the meeting, the shareholders entitled to participate, and the majority vote required to be obtained at such a meeting will be subject to the requirements set forth in the Companies Law as described above in "Voting Rights."

Borrowing Powers

Pursuant to the Companies Law and our articles, our board of directors may exercise all powers and take all actions that are not required under law or under our articles to be exercised or taken by our shareholders, including the power to borrow money for company purposes.

Changes in Capital

Our articles enable us to increase or reduce our share capital. Any such changes are subject to Israeli law and must be approved by a resolution duly passed by our shareholders at a general meeting by voting on such change in the capital. In addition, transactions that have the effect of reducing capital, such as the declaration and payment of dividends in the absence of sufficient retained earnings or profits, require the approval of both our board of directors and an Israeli court (other than an equity repurchase, for which we may proceed with the repurchase without obtaining court approval, provided that we follow the procedures described under "Dividend and Liquidation Rights" above).

List of Subsidiaries

Name of Subsidiary	Jurisdiction of Incorporation
InSync Staffing Services, Inc.	Delaware
Matrix IT Ltd.	Israel
Magic Software Enterprises Ltd.	Israel
Michpal Micro Computers (1983) Ltd.	Israel
Sapiens International Corporation N.V.	Cayman Islands
TSG Advanced IT Systems, Ltd	Israel
Ofek Ariel Photography Ltd	Israel
Zap Group	Israel
Shamrad Electronic (1997) Ltd	Israel

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO RULE 13a-14(a)/RULE 15d-14(a) UNDER
THE EXCHANGE ACT

I, Guy Bernstein, certify that:

1. I have reviewed this annual report on Form 20-F for the year ended December 31, 2023 of Formula Systems (1985) Ltd. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: May 15, 2024

/s/ Guy Bernstein

Guy Bernstein
Chief Executive Officer

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO RULE 13a-14(a)/RULE 15d-14(a) UNDER
THE EXCHANGE ACT

I, Asaf Berenstin, certify that:

1. I have reviewed this annual report on Form 20-F for the year ended December 31, 2023 of Formula Systems (1985) Ltd. (the “Registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and
5. The Registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Date: May 15, 2024

/s/ Asaf Berenstin

Asaf Berenstin
Chief Financial Officer
(Principal Financial and Accounting Officer)

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Formula Systems (1985) Ltd. (the "Company") on Form 20-F for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Guy Bernstein, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

/s/ Guy Bernstein

Guy Bernstein

Chief Executive Officer

**CERTIFICATION OF THE CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT
TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Formula Systems (1985) Ltd. (the "Company") on Form 20-F for the year ended December 31, 2023, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Asaf Berenstin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d), as applicable, of the Securities Exchange Act of 1934, and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2024

/s/ Asaf Berenstin

Asaf Berenstin
Chief Financial Officer
(Principal Financial and Accounting Officer)



**FORMULA SYSTEMS (1985) LTD.
POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

Formula Systems (1985) Ltd. (the “*Company*”) has adopted this Policy for Recovery of Erroneously Awarded Compensation (the “*Policy*”), effective as of October 2, 2023 (the “*Effective Date*”). Capitalized terms used in this Policy that are not otherwise defined herein shall have the respective meanings assigned thereto in Section 11.

Persons Subject to Policy

This Policy shall apply to and be binding and enforceable upon current and former Officers. In addition, the Committee and the Board may apply this Policy to persons who are not Officers, and such application shall apply in the manner determined by the Committee and the Board in their sole discretion.

Compensation Subject to Policy

This Policy shall apply to Incentive-Based Compensation received on or after the Effective Date. For purposes of this Policy, the date on which Incentive-Based Compensation is “received” shall be determined under the Applicable Rules, which generally provide that Incentive-Based Compensation is “received” in the Company’s fiscal period during which the relevant Financial Reporting Measure is attained or satisfied, without regard to whether the grant, vesting or payment of the Incentive-Based Compensation occurs after the end of that period.

Recovery of Compensation

In the event that the Company is required to prepare a Restatement, the Company shall recover, reasonably promptly and in accordance with Section 4 below, the portion of any Incentive-Based Compensation that is Erroneously Awarded Compensation, unless the Committee and the Board have determined that recovery from the relevant current or former Officer would be Impracticable. Recovery shall be required in accordance with the preceding sentence regardless of whether the applicable Officer engaged in misconduct or otherwise caused or contributed to the requirement for the Restatement and regardless of whether or when restated financial statements are filed by the Company. For clarity, the recovery of Erroneously Awarded Compensation under this Policy will not give rise to any Officer’s right to voluntarily terminate employment for “good reason” or due to a “constructive termination” (or any similar term of like effect) under any plan, program or policy of or agreement with the Company or any of its affiliates.

Manner of Recovery; Limitation on Duplicative Recovery

The Committee and the Board shall, in their sole discretion, determine the manner of recovery of any Erroneously Awarded Compensation, which may include, without limitation, reduction or cancellation by the Company or an affiliate of the Company of Incentive-Based Compensation or Erroneously Awarded Compensation, reimbursement or repayment by any person subject to this Policy, and, to the extent permitted by law, an offset of the Erroneously Awarded Compensation against other compensation payable by the Company or an affiliate of the Company to such person. Notwithstanding the foregoing, unless otherwise prohibited by the Applicable Rules, to the extent this Policy provides for recovery of Erroneously Awarded Compensation already recovered by the Company pursuant to Section 304 of the Sarbanes-Oxley Act of 2002 or Other Recovery Arrangements, the amount of Erroneously Awarded Compensation already recovered by the Company from the recipient of such Erroneously Awarded Compensation may be credited to the amount of Erroneously Awarded Compensation required to be recovered pursuant to this Policy from such person.

Administration

This Policy shall be administered, interpreted and construed by the Committee, which is authorized to make all determinations necessary, appropriate or advisable for such purpose. The Board may re-vest in itself the authority to administer, interpret and construe this Policy in accordance with applicable law, and in such event references herein to the “Committee” shall be deemed to be references to the Board. Subject to any permitted review by the applicable national securities exchange or association pursuant to the Applicable Rules, all determinations and decisions made by the Committee pursuant to the provisions of this Policy shall be final, conclusive and binding on all persons, including the Company and its affiliates, shareholders and employees. The Committee may delegate administrative duties with respect to this Policy to one or more directors or employees of the Company, as permitted under applicable law, including any Applicable Rules.

Interpretation

This Policy shall be interpreted and applied in a manner that is consistent with the requirements of the Applicable Rules, and to the extent this Policy is inconsistent with such Applicable Rules, it shall be deemed amended to the minimum extent necessary to ensure compliance therewith.

No Indemnification; No Liability

The Company shall not indemnify or insure any person against the loss of any Erroneously Awarded Compensation pursuant to this Policy, nor shall the Company directly or indirectly pay or reimburse any person for any premiums for third-party insurance policies that such person may elect to purchase to fund such person's potential obligations under this Policy. None of the Company, an affiliate of the Company or any member of the Committee or the Board shall have any liability to any person as a result of actions taken under this Policy.

Application; Enforceability

Except as otherwise determined by the Committee or the Board, the adoption of this Policy does not limit, and is intended to apply in addition to, any Other Recovery Arrangements. Without limiting the foregoing, in the event of a conflict between this Policy and the Compensation Policy, the latter shall prevail, except with respect to the recovery of any portion of Incentive-Based Compensation that is Erroneously Awarded Compensation that would not be recoverable under the Compensation Policy, in which case this Policy shall prevail. Subject to Section 4, the remedy specified in this Policy shall not be exclusive and shall be in addition to every other right or remedy at law or in equity that may be available to the Company or an affiliate of the Company or is otherwise required by applicable law and regulations.

Severability

The provisions in this Policy are intended to be applied to the fullest extent of the law; provided, however, to the extent that any provision of this Policy is found to be unenforceable or invalid under any applicable law, such provision will be applied to the maximum extent permitted, and shall automatically be deemed amended in a manner consistent with its objectives to the extent necessary to conform to any limitations required under applicable law.

Amendment and Termination

The Board or the Committee may amend, modify or terminate this Policy in whole or in part at any time and from time to time in its sole discretion. This Policy will terminate automatically when the Company does not have a class of securities listed on a national securities exchange or association in the U.S.

Definitions

“**Applicable Rules**” means Section 10D of the Exchange Act, Rule 10D-1 promulgated thereunder, the listing rules of the national securities exchange or association on which the Company's securities are listed, and any applicable rules, standards or other guidance adopted by the Securities and Exchange Commission or any national securities exchange or association on which the Company's securities are listed.

“**Board**” means the Board of Directors of the Company.

“**Compensation Policy**” means the Company's compensation policy for executive officers and directors, as adopted in accordance with the Israeli Companies Law 5759-1999 and as in effect from time to time.

“**Committee**” means the Compensation Committee of the Board or, in the absence of such a committee, a majority of the independent directors serving on the Board.

“Erroneously Awarded Compensation” means the amount of Incentive-Based Compensation received by a current or former Officer that exceeds the amount of Incentive-Based Compensation that would have been received by such current or former Officer based on a restated Financial Reporting Measure, as determined on a pre-tax basis in accordance with the Applicable Rules.

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Financial Reporting Measure” means any measure determined and presented in accordance with the accounting principles used in preparing the Company’s financial statements, and any measures derived wholly or in part from such measures, including GAAP, IFRS and non-GAAP/IFRS financial measures, as well as share price and total shareholder return.

“GAAP” means United States generally accepted accounting principles.

“IFRS” means international financial reporting standards as adopted by the International Accounting Standards Board.

“Impracticable” means (a) the direct expense paid to third parties to assist in enforcing recovery would exceed the Erroneously Awarded Compensation; provided that the Company has (i) made reasonable attempt(s) to recover the Erroneously Awarded Compensation, (ii) documented such reasonable attempt(s) and (iii) provided such documentation to the relevant listing exchange or association, (b) the recovery would violate the Company’s home country laws adopted prior to November 28, 2022 pursuant to an opinion of home country counsel; provided that the Company has (i) obtained an opinion of home country counsel, acceptable to the relevant listing exchange or association, that recovery would result in such a violation and (ii) provided such opinion to the relevant listing exchange or association, or (c) recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and the regulations thereunder.

“Incentive-Based Compensation” means, with respect to a Restatement, any compensation that is granted, earned, or vested based wholly or in part upon the attainment of one or more Financial Reporting Measures and received by a person: (a) after such person began service as an Officer; (b) who served as an Officer at any time during the performance period for that compensation; (c) while the Company has a class of securities listed on a national securities exchange or association; and (d) during the applicable Three-Year Period.

“Officer” means each person who the Company determines serves as a Company officer, as defined in Section 16 of the Securities Exchange Act of 1934, as amended, as well as any additional Company officers who are considered “office holders” (other than in their roles as directors) under the Israeli Companies Law 5759-1999 (the “Companies Law”) and are designated by the Committee and the Board “Officers” for purposes hereof.

“Other Recovery Arrangements” means any clawback, recoupment, forfeiture or similar policies or provisions of the Company or its affiliates, including any such policies or provisions of such effect contained in any employment agreement, bonus plan, incentive plan, equity-based plan or award agreement thereunder or similar plan, program or agreement of the Company or an affiliate or required under applicable law (including, without limitation, the Compensation Policy).

“Restatement” means an accounting restatement to correct the Company’s material noncompliance with any financial reporting requirement under securities laws, including a restatement that corrects an error in previously issued financial statements (a) that is material to the previously issued financial statements or (b) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

“Three-Year Period” means, with respect to a Restatement, the three completed fiscal years immediately preceding the date that the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare such Restatement, or, if earlier, the date on which a court, regulator or other legally authorized body directs the Company to prepare such Restatement. The “Three-Year Period” also includes any transition period (that results from a change in the Company’s fiscal year) within or immediately following the three completed fiscal years identified in the preceding sentence. However, a transition period between the last day of the Company’s previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months shall be deemed a completed fiscal year.

**ACKNOWLEDGMENT OF AND CONSENT TO
FORMULA SYSTEMS (1985) LTD. POLICY FOR RECOVERY OF ERRONEOUSLY AWARDED COMPENSATION**

The undersigned has received a copy of the Policy for Recovery of Erroneously Awarded Compensation (the "*Policy*") adopted by Formula Systems (1985) Ltd. (the "*Company*"), and has read and understands the Policy. Capitalized terms used in this Acknowledgment that are not otherwise defined herein shall have the respective meanings ascribed to such terms in the Policy.

As a condition of receiving Incentive-Based Compensation from the Company, the undersigned agrees that any Incentive-Based Compensation received on or after the Effective Date is subject to recovery pursuant to the terms of the Policy. To the extent the Company's recovery right conflicts with any other contractual rights the undersigned may have with the Company, the undersigned understands that the terms of the Policy shall supersede any such contractual rights. The terms of the Policy shall apply in addition to any right of recoupment against the undersigned under the Compensation Policy or applicable law and regulations.

Date

Signature

Name

Title