RNS Number : 8012F
Ethernity Networks Ltd
26 September 2024

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ETHERNITY NETWORKS LTD
("Ethernity" or the "Company" or the "Group")

Interim results for the six months ended 30 June 2024

Ethernity Networks Ltd (AIM: ENET.L; OTCMKTS: ENETF), a leading supplier of data processing semiconductor technology for networking appliances, announces its interim results for the six months ended 30 June 2024.

Financial summary

- Revenues decreased by 58% to 582,008 (H1 2023: 1,398,871).
- Gross profit decreased by 29% to 566,602 over the comparable period (H1 2023: 802,494).
- Gross margin of 97.4% (H1 2023: 57.4%) reflecting an increase of 40 percentage points.
- Research and Development, General and Administrative, and Marketing expenses (before amortisation, depreciation IFRS and other adjustments) decreased overall by 45%.
- EBITDA and Adjusted EBITDA loss decreased by 48% and 46% to 1,590,542 and 1,657,094 respectively (H1 2023: 3,068,009 and 3,045,037).

CEO STATEMENT

Overview and current trading

In 2024 to date, Ethernity has made positive commercial progress and is currently executing multiple customer projects, whilst simultaneously engaging in active discussions with prominent global OEM potential customers.

Ethernity stands out for its cost-effective switching and routing data plane functionality on field programmable gate arrays ("**FPGAs**"), enabling a versatile solution that supports services from 40Gbps to 300Gbps. This translates to significant advantages for our customers who can leverage the Company's state of the art data processing engine and offer Carrier Ethernet services at a competitive price point. In addition, customers have the option to unlock premium features by enabling Ethernity's routing application. Furthermore, for high-volume applications, Ethernity offers a seamless migration path to ASICs, ensuring dramatic cost reductions as customer needs evolve.

Ethernity offers a compelling value proposition for OEM customers by combining the power of its cost-effective Data Processing Unit ("**DPU**") systems on a chip ("**SoC**") with the innovative low-latency passive optical network ("**PON**") technology. This comprehensive suite provides a versatile solution for active and passive services, using both wired and wireless infrastructure.

The Ethernity universal edge platform ("**UEP**") is a powerful platform that combines an FPGA with the ENET flow processor and a comprehensive suite of application software. This innovative solution delivers Carrier Ethernet Switch/Router functionality, along with precise timing synchronization, security and link bonding capabilities.

The Ethernity UEP2025 extends its capabilities beyond Carrier Ethernet by incorporating industry-leading Remote OLT (GPON and XGS-PON) functionality for the Broadband market. This versatile platform delivers a comprehensive feature set, including Carrier Ethernet switching and routing, precise timing synchronization, link bonding, and advanced PON capabilities. This unified solution empowers OEM customers to address a broad range of markets and applications while significantly reducing integration efforts. Furthermore, the UEP's FPGA-based architecture provides Ethernity with the flexibility to adapt its capabilities to meet the ever-evolving needs of the market, while still delivering hardware-based performances.

Additionally, Ethernity has enhanced its standard ENET data processing solution with comprehensive network operating software. This new software stack offers a complete system solution, expanding Ethernity's revenue potential and increasing gross margins for ENET Flow processor units. It also enables Ethernity to reach a broader customer base, including those seeking tailored networking capabilities, with production ready network operating software, but without the need for a fully customized FPGA or ASIC.

During the first six months of 2024, the Company was mainly focused on enhancement of the UEP2025 software application functionality and engaged with several large OEMs. These OEMs are evaluating the Company's UEP product offering, and this has so far generated excellent results. We are confident that these relationships will fuel the Company's future growth. Following the Company's strategy to complement its silicon tuned offering with a fully integrated Software application, the Company is in the advanced stages of completing the integration of the PON OLT (GPON/XGS-PON) running on the UEP2025, with cloud-based software which will provide the Company's OEM customers with a complete end-to-end product offering for Remote OLT.

As first announced on 28 June 2024, the Company signed a new 1.05m licensing contract with a leading U.S. Aerospace company. As part of this project, the Company will deliver its silicon-tuned software to enable specific networking functionalities on the customer's unique platform. The project was pending U.S. Government approval to allow the customer to work with a non-U.S. vendor. Approval was obtained on September 9, 2024. For the first project deliverable, Ethernity provided its UEP2025, in order to enable the customer to speed up development of their product. The Company is now fully engaged with the customer to support and expedite its product development and market readiness.

Furthermore, the majority of the delivery associated with the 200k product enhancement order from another customer, that was announced in August 2024, has been completed. This product enhancement leverages on Ethernity's data processing technology and will enable the customer to secure additional orders for its remote 10G PON OLT product, which would contribute to Ethernity's future revenue growth.

Outlook

By transitioning to a system-based approach that is based on the Company's silicon tuned technology, Ethernity unlocks significant value for a broader customer base. The comprehensive solutions, combining powerful FPGA SoCs with Ethernity's semiconductor expertise and application software, reduces the need for in-house product development by its OEM customers. This enables customers to leverage the Company's technology for a more agile and rapid go to market strategy. This strategic shift positions Ethernity to strengthen its market position, expand its OEM customer base, and attract new partners who can significantly contribute to the Company's revenue growth.

Furthermore, over the past several months, the Company has been engaged in discussions with two Tier-1 wireless backhaul solutions providers. They both have prior experience with the Company's technology, and one has been successfully testing Ethernity's solution for the past nine months. Whilst no contracts have been secured to date, these vendors have expressed an interest in Ethernity's evolving FPGA technology and solution to an ASIC, as they believe that it would enable them to gain market share while simultaneously improving their respective gross margins.

To meet this anticipated demand, Ethernity intends to leverage its significant skill and know-how as a networking technology provider, along with its existing patented ENET data processing technology, to build a higher-performance networking ASIC at groundbreaking price and performance levels. This will allow Ethernity to address various networking use cases and to support the customers' growth opportunities. The future ASIC will leverage on the current Ethernity field proven Silicon and software offering, currently running on the UEP2025 as a complete product.

The Company has received interest from two Global Tier-1 OEMs to co-fund and adopt an ASIC solution from Ethernity. Should they choose to proceed this could lead to a significant increase in NRE payments to the Company in 2025-2026. Management believes that there is an addressable market that could enable the Company to achieve significant revenue growth over the coming years and aspire for the Company to reach annual revenues exceeding 35 million in five years.
The Directors believe that Ethernity is strategically positioned to capitalize on a unique transformative business opportunity within the growing FrontHaul/Backhaul mobile industry, driven by the ever-increasing demand for more bandwidth driven by mass migration to cloud based solutions.

A new report from Dell'Oro Group shows that worldwide telecom equipment revenues are down in the first half of 2024 by 17% due to excess inventory fueled by the panic around the chip shortage period that followed Covid. However, the report suggests there may be some recovery during the remainder of 2024 to result in a total decline for the year of 8% to 10%.

While analysts predict modest telecom business growth from 2025 and beyond, Ethernity's primary growth area is in the Mobile backhaul market, where the Company delivers a fully integrated product supporting Switch/Router, Security, and wireless link bonding, which targets the growing Millimeter wave technology market (i.e E-BAND). As indicated in Transparency market Research (June 2024), the Global mmWave wireless technology market represented 4.4B in 2023 (~1.2M units), and will reach close to 20B by 2034 (~8M units) with a CAGR of 14.7%. That could potentially represent an addressable market of 800,000 ENET devices for 2025, or two million devices for FY-2034.

As indicated above, 2024 has been a challenging year in the telecom industry and it has affected the Company's customers. However, management sees a positive transition during the second half of 2024 and anticipates further revenue growth in royalties, licensing, NRE and hardware components sales, both from existing customers and from new customers for our IP and UEP FPGA based solutions. Together with the above detailed transformative ASIC business operation, we anticipate a bright future for the Company.

By order of the Board

David Levi
CEO
26 September 2024

For further information, please contact:

Ethernity Networks Ltd David Levi, Chief Executive Officer Ayala Deutsch, Chief Financial Officer	Tel: +972 3 748 9846
Allenby Capital Limited (Nominated Adviser and Joint Broker) James Reeve / Piers Shimwell (Corporate Finance) Amrit Nahal/ Stefano Aquilino (Sales and Corporate Broking)	Tel: +44 (0)20 3328 5656
Peterhouse Capital Limited (Joint Broker) Lucy Williams/ Duncan Vasey/ Eran Zucker	Tel: +44 (0)20 7562 0930

MARKET ABUSE REGULATION
The information contained within this announcement is deemed by the Company to constitute inside information as stipulated under the Market Abuse (amendment) (EU Exit) Regulations 2019/310 ("MAR"). With the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

OPERATIONAL AND FINANCIAL REVIEW

Revenues

During the period under review, the Company delivered revenues of 582,008 (H1 2023: 1,398,871), a decrease of 58% over H1 2023.
The decline in revenue for the period is primarily attributable to a decline in revenues of hardware components (i.e FPGA SoC). This decline in hardware component sales is primarily due to excess inventory stocked up in the telecom market during 2022-2023, driven by the panic surrounding the chip shortage as elaborated in the 'Outlook' section above. We anticipate that demand will return back to previous levels during H2 2024.

Additionally, with respect to the remaining revenue streams, this decline reflects the Company's strategic focus on transformative business efforts, which are expected to drive long-term growth.

Gross profit and margin

The gross profit decreased to 566,602 (H1 2023: 802,494), and the gross margin increased to 97.4% (H1 2023: 57.4%) reflecting an increase of 40 percentage points.

The significant increase in gross margin is a direct result of the revenue recognized during the period, which was mainly derived from licensing and royalty revenues with no COGS.

EBITDA

The EBITDA for the six months ended 30 June 2024 is presented as follows:

EBITDA (US Dollars)	**For the 6 months ended** 30-Jun-2024	30-Jun-2023	**For the 12 months ended** 31-Dec-2023	**6-month change of 2024 vs 2023**	%
Revenues	**582,008**	**1,398,871**	**3,777,919**	**(816,863)**	**(58%)**
Gross Profit	**566,602**	**802,494**	**2,340,142**	**(235,892)**	**(29%)**
Gross Margin %	*97.4%*	*57.4%*	*61.9%*		*40%*
Operating Loss	**(2,397,002)**	**(3,774,255)**	**(5,280,652)**	**1,377,253**	**(36%)**
Amortisation of Intangible Assets	480,690	480,690	961,380	-	
Depreciation charges on fixed assets	158,570	67,614	138,782	90,956	
Depreciation in respect of IFRS16 lease assets	167,200	157,942	315,884	9,258	
EBITDA	**(1,590,542)**	**(3,068,009)**	**(3,864,606)**	**1,477,467**	**(48%)**
Add back Share based compensation charges	140,900	56,025	72,287	84,875	
Add back impairments	-	193,537	220,220	(193,537)	
Add back vacation accrual charges	9,540	(22,324)	(109,026)	31,864	
Adjust IFRS16 rent expense reversals	(216,992)	(204,266)	(398,033)	(12,726)	
Adjusted EBITDA	**(1,657,094)**	**(3,045,037)**	**(4,079,158)**	**1,387,943**	**(46%)**

EBITDA loss for the first six-month period of the year decreased by 48% to1,590,542 (H1 2023:3,068,009). The Adjusted EBITDA loss in the first six months of the year decreased by 46% to1,657,094 (H1 2023:3,045,037). These improvements are attributed to the cost savings steps the Company applied during the second half of 2023 in its efforts to control spending.

Operating costs

Operating expenses (before amortisation, depreciation and IFRS adjustments) decreased by an overall 45% from 4,041,068 to 2,223,696 during the period against the same period in 2023.

Within the R&D division, the Company reduced its operating expenses (including headcount and other R&D expenses) by a total of 55%.

General and Administration costs (before amortisation, depreciation and IFRS adjustments) have decreased by 19%, also mainly attributed to headcount savings.

The decrease in Marketing expenses (net of share-based compensation and vacation accruals) of 33% is also mainly attributed to headcount savings.

After adjusting for non-cash items; amortisation costs of the Development Intangible asset, Depreciation, Share Based Compensation adjustments, and IFRS adjustments the resultant decreases in Operating costs, as adjusted are:

Operating costs (US Dollars)	**For the 6 months ended** 30-Jun-2024	30-Jun-2023	**For the 12 months ended** 31-Dec-2023	**6-month change of 2024 vs 2023**	%
Research and Development Costs net of amortisation, Share Based Compensation, IFRS adjustments and Vacation accruals	1,220,252	2,727,389	4,198,131	(1,507,137)	(55%)
General and Administrative expenses, net of depreciation, Share Based Compensation, IFRS adjustments, Vacation accruals and impairments	724,132	895,691	1,170,442	(171,559)	(19%)
Marketing expenses, net of Share Based Compensation and Vacation accruals	279,312	417,988	655,491	(138,676)	(33%)
Total	**2,223,696**	**4,041,068**	**6,024,064**	**(1,817,372)**	**(45%)**

Summarised trading results

Summarised Trading Results (US Dollars)	**For the 6 months ended** 30-Jun-2024	30-Jun-2023	**For the 12 months ended** 31-Dec-2023	**6-month change of 2024 vs 2023**	%
Revenues	**582,008**	**1,398,871**	**3,777,919**	**816,863**	**(58%)**
Gross Profit	**566,602**	**802,494**	**2,340,142**	**235,892**	**(29%)**
Gross Margin %	*97.4%*	*57.4%*	*61.9%*		*40%*
Operating Loss	**(2,397,002)**	**(3,774,255)**	**(5,280,652)**	**(1,377,253)**	**(36%)**
Financing costs	(1,202,765)	(163,008)	(1,267,906)	1,039,757	
Financing income (expenses)	61,753	322,814	183,811	261,061	
Net comprehensive loss for the year	**(3,538,014)**	**(3,614,449)**	**(6,364,747)**	**(76,435)**	**(2%)**
Basic and Diluted earnings per ordinary share	(0.01)	(0.03)	(0.04)	(0.03)	(73%)
Weighted average number of ordinary shares for basic earnings per share	385,600,025	108,252,292	143,876,859		

Financing costs

The majority of the financing costs recognised during the first 6-month period of 2024 relate to the structured investment deed signed in May 2024. The expense will be further increased or decreased based on the actual date of any warrant deed signed in May 2024. The expense will be further increased or decreased based on the actual date of any warrant exercise and will be determined by the share price at the date of exercise. Refer to note 4[1] of the interim unaudited financial statements which discusses the accounting treatment applied in this regard.

Going Concern

Based on the major cut in expenses and the modified business model, licensing discussion and negotiations with major Telecom manufacturers, as well as bearing in mind the ability and success of the Company to raise funds previously, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future and therefore have adopted the going concern basis of preparation in the financial statements.

Other than the points outlined above, there are no items on the Balance Sheet that warrant further discussion outside of the disclosures made in the Interim Unaudited Financial Statements presented below.

FORWARD LOOKING STATEMENTS

This announcement includes statements that are, or may be deemed to be, "forward-looking statements". By their nature, forward-looking statements involve risk and uncertainty since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements. Any forward-looking statements in this announcement reflect Ethernity's view with respect to future events as at the date of this announcement. Save as required by law or by the AIM Rules for Companies, Ethernity undertakes no obligation to publicly revise any forward-looking statements in this announcement, following any change in its expectations or to reflect events or circumstances after the date of this announcement.

By order of the Board

Ayala Deutsch
CFO
26 September 2024

Interim Unaudited Financial Statements as at 30 June 2024

STATEMENT OF FINANCIAL POSITION

	US dollars		
	30 June		31 December
	2024	2023	2023
	Unaudited		Audited
ASSETS			
Current			
Cash and cash equivalents	580,711	136,872	1,993,808
Trade receivables	459,209	1,465,637	186,145
Inventories	411,035	890,897	535,689
Other current assets	381,144	577,290	427,875
Current assets	**1,832,099**	**3,070,696**	**3,143,517**
Non-Current			
Property and equipment	663,014	891,478	820,310
Intangible asset	4,020,730	4,982,110	4,501,420
Right-of-use asset	1,008,750	2,658,699	1,175,950
Other long term assets	107,274	34,524	35,144
Non-current assets	**5,799,768**	**8,566,811**	**6,532,824**
Total assets	**7,631,867**	**11,637,507**	**9,676,341**
LIABILITIES AND EQUITY			
Current			
Short Term Borrowings	-	403,492	96,306
Trade payables	1,212,380	1,010,240	1,237,113
Liability related to share subscription agreement	-	1,510,000	-
Warrants liability	1,962,859	27,215	2,841
Other current liabilities	1,186,358	1,247,660	1,607,897
Current liabilities	**4,361,597**	**4,198,607**	**2,944,157**
Non-Current			
IIA royalty liability	48,866	-	50,645
Lease liability	559,138	2,278,634	764,366
Non-current liabilities	**608,004**	**2,278,634**	**815,011**
Total liabilities	**4,969,601**	**6,477,241**	**3,759,168**
Equity			
Share capital	114,562	38,500	103,417
Share premium	47,430,420	43,873,332	47,299,358
Other components of equity	1,475,431	1,318,269	1,334,531
Accumulated deficit	(46,358,147)	(40,069,835)	(42,820,133)
Total equity	**2,662,266**	**5,160,266**	**5,917,173**
Total liabilities and equity	**7,631,867**	**11,637,507**	**9,676,341**

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

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STATEMENT OF COMPREHENSIVE LOSS

	Note	US dollars		
		Six months ended 30 June		For the year ended 31 December
		2024	2023	2023
		Unaudited		Audited
Revenue	7	582,008	1,398,871	3,777,919
Cost of sales		15,406	596,377	1,437,777
Gross profit		**566,602**	**802,494**	2,340,142
Research and development expenses		1,844,393	3,241,579	5,160,697
General and administrative expenses		837,735	926,293	1,841,842
Marketing expenses		281,476	408,877	621,052
Other income		-	-	(2,797)
Operating loss		**(2,397,002)**	**(3,774,255)**	**(5,280,652)**
Financing costs	5	(1,202,765)	(163,008)	(1,267,906)
Financing income	6	61,753	322,814	183,811
Loss before tax		**(3,538,014)**	**(3,614,449)**	**(6,364,747)**
Tax expense		-	-	-
Net comprehensive loss for the period		**(3,538,014)**	**(3,614,449)**	**(6,364,747)**
Basic and diluted loss per ordinary share		**(0.01)**	**(0.03)**	**(0.04)**
Weighted average number of ordinary shares for basic and diluted loss per share		385,600,025	108,252,292	143,876,859

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

STATEMENT OF CHANGES IN EQUITY

	Number of shares	US dollars				
		Share capital	Share premium	Other components of equity	Accumulated deficit	Total e
Balance at 1 January 2024 (Audited)	**376,721,091**	**103,417**	**47,299,358**	**1,334,531**	**(42,820,133)**	**5,917**
Employee share-based compensation	-	-		140,900	-	140
Net proceeds allocated to the issuance of ordinary shares	40,000,000	10,893	112,228	-	-	123
Expenses paid in shares and warrants	921,152	252	18,834	-	-	19
Net comprehensive loss for the period	-	-	-	-	(3,538,014)	(3,538,
Balance at 30 June 2024 (Unaudited)	**417,642,243**	**114,562**	**47,430,420**	**1,475,431**	**(46,358,147)**	**2,662**
Balance at 1 January 2023 (Audited)	**78,084,437**	**21,904**	**40,786,623**	**1,225,391**	**(36,455,386)**	**5,578**
Employee share-based compensation	-	-	-	56,025	-	56
Net proceeds allocated to the issuance of ordinary shares	49,688,097	14,073	2,638,711	-	-	2,652
Shares issued pursuant to share subscription agreement	6,629,236	1,816	244,705	-	-	246
Expenses paid in shares and warrants	2,388,771	707	203,293	36,853	-	240
Net comprehensive loss for the period	-	-	-	-	(3,614,449)	(3,614,
Balance at 30 June 2023 (Unaudited)	**136,790,541**	**38,500**	**43,873,332**	**1,318,269**	**(40,069,835)**	**5,160**
Balance at 1 January 2023 (Audited)	**78,084,437**	**21,904**	**40,786,623**	**1,225,391**	**(36,455,386)**	**5,578**
Employee share-based compensation	-	-	-	72,287	-	72
Net proceeds allocated to the issuance of ordinary shares	127,188,097	35,441	3,530,205	-	-	3,565
Shares issued pursuant to share subscription agreement	168,933,439	45,331	2,762,249	-	-	2,807
Expenses paid in shares and warrants	2,515,118	741	220,281	36,853	-	257
Net comprehensive loss for the year	-	-	-	-	(6,364,747)	(6,364,
Balance at 31 December 2023 (Audited)	**376,721,091**	**103,417**	**47,299,358**	**1,334,531**	**(42,820,133)**	**5,917**

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

STATEMENT OF CASH FLOWS

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2024	2023	2023
	Unaudited		Audited
Operating activities			
Net comprehensive loss for the period	(3,538,014)	(3,614,449)	(6,364,747)
Non-cash adjustments			
Inventory write off	-	193,537	-
Depreciation of property and equipment	158,570	67,614	138,129
Depreciation of right of use asset	167,200	157,942	315,884
Share-based compensation	140,900	56,025	72,287
Amortisation of intangible assets	480,690	480,690	961,380
Amortisation of liabilities	(35,241)	(140,693)	(113,078)
Lease liability Interest	53,489	104,742	200,261
Foreign exchange losses on cash balances	27,649	17,328	3,377
Revaluation of financial instruments, net	1,074,518	(212,120)	818,521
Expenses paid in shares and options	19,086	240,853	257,875
Net changes in working capital			
Decrease (Increase) in trade receivables	(273,064)	(166,565)	1,112,927
Decrease (Increase) in inventories	124,654	(311,358)	237,387
Decrease (Increase) in other current assets	46,731	(233,418)	(84,003)
Decrease (Increase) in other long-term assets	(72,130)	1,165	545
Increase (decrease) in trade payables	(24,733)	224,657	451,530
Increase (decrease) in other liabilities	(427,237)	127,872	422,658
Increase (decrease) in IIA royalty liability	(1,779)	-	73,645
Net cash used in operating activities	**(2,078,711)**	**(3,006,178)**	**(1,495,422)**
Investing activities			
Purchase of property and equipment	(1,274)	(148,766)	(148,113)
Net cash used in investing activities	**(1,274)**	**(148,766)**	**(148,113)**
Financing activities			
Proceeds allocated to ordinary shares	133,324	2,864,790	3,756,391
Proceeds allocated to warrants	885,500	132,544	132,544
Issuance costs	(10,203)	(185,249)	(262,444)
Proceeds from short term borrowings	(138,148)	956,382	1,239,657
Repayment of short-term borrowings	41,056	(970,872)	(1,543,210)
Repayment of lease liability	(216,992)	(204,266)	(398,033)
Net cash provided by financing activities	**694,537**	**2,593,329**	**2,924,905**
Net change in cash and cash equivalents	(1,385,448)	(561,615)	1,281,370
Cash and cash equivalents, beginning of year	1,993,808	715,815	715,815
Exchange differences on cash and cash equivalents	(27,649)	(17,328)	(3,377)
Cash and cash equivalents, end of period	**580,711**	**136,872**	**1,993,808**
Supplementary information:			
Interest paid during the period	1,206	38,499	64,239
Interest received during the period	1,193	76	226
Supplementary information on non-cash activities:			
Shares issued pursuant to share subscription agreement	-	246,521	1,778,468
Expenses paid in shares and warrants	19,086	240,853	257,875
Non-cash issuance costs	-	-	26,757
Update of lease liability	-	-	1,324,807

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

ETHERNITY NETWORKS LTD. (hereinafter: the "Company"), was incorporated in Israel on the 15th of December 2003 as Neracore Ltd. The Company changed its name to ETHERNITY NETWORKS LTD. on the 10th of August 2004.

The Company provides innovative, comprehensive networking and security solutions on programmable hardware for accelerating telco/cloud networks performance. Ethernity's FPGA logic offers complete Carrier Ethernet Switch Router data plane processing firmware, PON MAC firmware and control software with a rich set of networking features, robust security, and a wide range of virtual function accelerations to optimise telecommunications networks. Ethernity's complete solutions quickly adapt to customers' changing needs, improving time-to-market and facilitating the deployment of 5G, edge computing, and different NFV appliances including wireless backhaul with wireless link bonding, 5G UPF, 5G CU and vRouter offload with the current focus on 5G emerging appliances. The Company's customers are situated worldwide.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

Basis of presentation of the financial statements and statement of compliance with IFRS

The interim condensed financial statements for the six months ended 30 June 2024 have been prepared in accordance with IAS 34, Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements in accordance with IFRS and should be read in conjunction with the Company's annual financial statements as at 31 December 2023. The accounting policies applied in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2023.

The interim condensed financial statements for the half-year ended 30 June 2024 (including comparative amounts) were approved and authorized for issue by the board of directors on 26 September 2024.

NOTE 3 - GOING CONCERN

The financial statements have been prepared assuming that the Company will continue as a going concern. Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future unless management intends or has no realistic alternative other than to liquidate the entity or to stop trading for at least, but not limited to, 12 months from the reporting date. This assessment has been made of the Company's prospects, considering all available information about the future, which have been included in the financial budget, from managing working capital and among other factors such as debt repayment schedules. Consideration has been given inter alia to the value of funds raised during 2024 to date, and the Company's ability to raise funds in the past. Furthermore, the Company has made positive commercial progress and is currently executing multiple customer projects, whilst simultaneously engaging in active discussions with prominent global OEM potential customers.

Considering the outlined factors above and based on experience, the directors have an expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future.

However, the success of the Company's plans as outlined above is not assured and thus a material uncertainty exists that may cast a significant doubt on the Company's ability to continue as a going concern and fulfil its obligations and liabilities in the normal course of business in the future. The financial statements do not include any adjustments relating to recoverability and classification of the recorded asset amounts, and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

NOTE 4 - SIGNIFICANT EVENTS

EQUITY RELATED TRANSACTIONS DURING THE ACCOUNTING PERIOD

During the 6-month period ended 30 June 2024, ordinary shares of the Company were issued, as follows:

	Note	Number of ordinary shares
Shares issued pursuant to structured investment deed	[1]	40,000,000
Expenses paid for in shares	[2]	921,152
		40,921,152

[1] Details of the shares issued pursuant to structured investment deed:

In May 2024 the Company entered into a structured investment deed and issued 40,000,000 shares ("Subscription Shares") and a contingent warrant in exchange for gross proceeds of £800,000 (1.01m).

The Warrant is initially exercisable at a price of 1 pence per share for a period of 44 days from the closing. The exercise price is reset on the 45th day after closing, following which it will be calculated as the average (in pounds Sterling, rounded down to three decimal places) of the lowest five, daily Volume Weighted Average Price ("VWAP") of the Company's share price on the stock-market, during the 20 trading days before the receipt of a warrant exercise notice by the Company, less a 15% discount, rounded down to the nearest one tenth of a penny.

The Warrant has an 8-month exercise period and can be exercised in full or in part. The amount available to be exercised under the Warrant is £800,000, less the value of the 40,000,000 Subscription Shares, calculated by reference to the relevant exercise price, such that the investor will be entitled to exercise the Warrant only for an amount exceeding the difference between the maximum amount of £800,000 (or a lower amount outstanding at the time following prior exercise of the Warrant) and the value of 40,000,000 Subscription Shares at the relevant exercise price. The exercise price of the Warrant is prefunded by way of the £800,000 gross fundraise amount and, accordingly, no additional payment will be made by the investor to the Company in connection with the exercise of the Warrant.

Accounting treatment:

As the exercise price of the warrants is denominated in GBP and not in the Company's functional currency, it was determined that the Company's obligation under such warrants cannot be considered as an obligation to issue a fixed number of equity instruments in exchange for a fixed amount of cash. Accordingly, it was determined that such warrants represent a derivative financial liability required to be accounted for at fair value through the profit or loss category.

Upon initial recognition the Company allocated the gross investment amount of £800,000 (1.01m) as follows:

a. 0.9m as a derivative warrants liability (see below for the valuation details).
b. 0.1m being the remainder of the proceeds, to share capital and share premium.

The issuance expenses of approximately 0.07m were allocated to the equity components in the same proportion as they were initially recorded. These expenses were accounted for as follows:

a. The expenses related to the warrant component were carried to profit or loss as an immediate expense.
b. The expenses related to the share capital component were netted off against the amount carried to equity.

Initial warrant valuation:
At issuance, the structured warrant is a hybrid instrument containing components which feature in regular options and other components which are different to regular options. The valuation method considered to be appropriate for such an instrument is the Naïve approach, which is calculated by multiplying:

a. the share price of the Company at such date, by
b. the total number of shares that the warrant holder would have been issued if the entire warrant was exercised at such issuance date, assuming that the 1 pence per share exercise price had already expired.

None of these warrants had been exercised by 30 June 2024 and their fair value at such date, using the method described above, of approximately 1.96m is disclosed as a warrants' liability in the statement of financial position. The periodic change in the fair value is carried to profit or loss under financing costs or financing income, as applicable. The fair value of the derivative warrant liability is categorised as level 3 of the fair value hierarchy.

On 12 July 2024 the Company received a warrant exercise notice for £395,000 and issued 98,750,000 shares to satisfy this exercise.

[2] Expenses paid for in shares

Mr. Yosi Albagli, our non-Executive Chairman, contractually receives a portion of his annual remuneration in shares of the Company. Consequently, the Company has issued 921,152 shares to Mr Albagli, in satisfaction of the share element of his remuneration for the period from 1 March 2023 to 29 February 2024 at an average issue price of 2.5p per share.

NOTE 5 - FINANCING COSTS

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2024	2023	2023
	Unaudited		Audited
Bank fees and interest	6,989	48,170	82,570
Lease liability financial expenses	53,489	104,742	200,260
Revaluation of liability related to share subscription agreement measured at FVTPL	-	-	974,980
Expenses allocated to issuing warrants	67,769	10,096	10,096
Revaluation of warrant derivative liability	1,074,518	-	-
Total financing costs	**1,202,765**	**163,008**	**1,267,906**

NOTE 6 - FINANCING INCOME

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2024	2023	2023
	Unaudited		Audited
Revaluation of proceeds due on account of shares (financial asset measured at FVTPL)	-	80,034	-
Revaluation of warrant derivative liability	-	105,329	129,703
Interest received	1,193	76	226
Exchange rate differences, net	60,560	137,375	53,882
Total financing income	**61,753**	**322,814**	**183,811**

NOTE 7 - SEGMENT REPORTING

The Company has implemented the principles of IFRS 8, in respect of reporting segmented activities. In terms of IFRS 8, the management has determined that the Company has a single area of business, being the development and delivery of high-end network processing technology.

The Company's revenues are divided into the following geographical areas:

US dollars		
Six months ended 30 June		Year ended 31 December
2024	2023	2023
Unaudited		Audited

Asia	-	54,700	154,700
Europe	-	12,390	12,390
Israel	142,512	137,912	758,445
United States	439,496	1,193,869	2,852,384
	582,008	1,398,871	3,777,919

The Company's revenues are divided into the following geographical areas:

			%
	Six months ended 30 June		Year ended 31 December
	2024	2023	2023
	Unaudited		Audited
Asia	0.0%	3.9%	4.1%
Europe	0.0%	0.9%	0.3%
Israel	24.5%	9.9%	20.1%
United States	75.5%	85.3%	75.5%
	100.0%	100.0%	100.0%

Revenue from customers in the company's domicile, Israel, as well as its major market, the United States and Asia, have been identified on the basis of the customer's geographical locations.

NOTE 8 - SUBSEQUENT EVENTS

1. On 12 July 2024 the Company received a warrant exercise notice for £395,000 and issued 98,750,000 shares to satisfy this exercise - See Note 4 [1].

2. In September 2024, the Company raised gross proceeds of £540,500 in a private placement, by issuing 180,166,666 shares at 0.3p per share.

   Investors will receive one warrant for every share subscribed for, exercisable at 0.75p for 18 months from the date of grant. The warrants are not transferable and will not be traded on a stock exchange. The warrants contain an accelerator clause such that the Company may serve notice on the warrant holders to exercise their warrants in the event that the closing mid-market share price of the Company's shares trade at 1.5p or more over a consecutive five-day trading period. In the event the Company serves notice, any warrants remaining unexercised after seven calendar days following the issue of the notice will be cancelled.

   David Levi, the Company's CEO, has confirmed his intention to subscribe for an additional 9,008,333 shares (and will receive a like number of warrants) which will yield gross proceeds of a further £27,025.

   The Company issued 1,666,667 new shares to an adviser at a price of 0.3p per share, in settlement of amounts owed by the Company in respect of this private placement.

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