

Controp Precision Technologies Ltd.

Consolidated Financial Statements

As at December 31, 2024

Consolidated Financial Statements as at December 31, 2024

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Auditors' Report to the Shareholders of Controp Precision Technologies Ltd.

We have audited the accompanying consolidated statements of financial position of Controp Precision Technologies Ltd., as of December 31, 2024 and 2023 and the consolidated statements of income, comprehensive income, changes in equity, and cash flows, for each of the three years in the period ended December 31, 2024. These financial statements are the responsibility of the Group's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2024 and 2023, and the results of their operations, changes in equity and their cash flows for each of the three years in the period ended December 31, 2024, in conformity with International Financial Accounting Reporting Standards (IFRS) and in accordance with the provisions of Section 33B of the Government Companies Law-1975 and the circulars issued by the Government Companies Authority.

A handwritten signature in blue ink that reads 'Somekh Chaikin'.

Somekh Chaikin
Certified Public Accountants (Isr.)

February 25, 2025

Consolidated Statements of Financial Position as at December 31

		2024	2023
	Note	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents		33,979	20,189
Trade receivables	4	40,953	35,304
Accrued income from work in progress	5	67,043	67,446
Other receivables	6	3,462	2,573
Income tax receivable	23	2,008	924
Inventory	7	22,556	12,752
Total current assets		170,001	139,188
Non-current assets			
Investment in equity accounted investee	8.B	4,278	4,074
Deferred taxes	23	2,146	1,451
Fixed assets, net	9	15,197	8,501
Intangible assets, net	10	22,911	21,611
Right-of-use assets	25	4,230	8,313
Total non-current assets		48,762	43,950
Total assets		218,763	183,138

Consolidated Statements of Financial Position as at December 31

	Note	2024 \$ thousands	2023 \$ thousands
Current liabilities			
Credit from banks and others	11	84,704	71,859
Current maturities of lease liabilities	25	1,392	2,427
Trade payables	12	33,526	18,467
Other payables	13	18,272	20,761
Income tax payable	23	5,864	524
Total current liabilities		143,758	114,038
Non-current liabilities			
Long-term lease liabilities	25	3,125	7,073
Loans from banks	26	5,660	11,346
Total non-current liabilities		8,785	18,419
Total liabilities		152,543	132,457
Equity			
Non-controlling interests	8.B	992	1,504
Share capital	15	4	4
Share premium		7,515	7,515
Reserves		5,521	5,410
Retained earnings		52,188	36,248
Equity attributable to owners of the Company		65,228	49,177
Total equity		66,220	50,681
Total liabilities and equity		218,763	183,138


 Yuval Miller
 Chairman of the Board


 Hagay Azani
 CEO


 Doron Nir
 CFO

Date of approval of the financial statements: February 25, 2025

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

Consolidated Statements of Income for the Year Ended December 31

	Note	2024 \$ thousands	2023 \$ thousands	2022 \$ thousands
Revenues from sales and work performed	17	160,589	130,301	102,709
Cost of sales and work performed	18	113,253	89,969	76,241
Gross profit		47,336	40,332	26,468
Selling and marketing expenses	19	6,216	5,865	5,770
General and administrative expenses	20	8,132	6,591	5,097
Research and development expenses	21	7,695	3,841	4,571
Other income, net		(801)	-	(8)
Operating profit		26,094	24,035	11,038
Financing expenses	22	7,091	13,635	6,152
Financing income	22	(1,020)	(266)	(19)
Financing expenses, net		6,071	13,369	6,133
Profit before taxes on income		20,023	10,666	4,905
Taxes on income (tax benefit)	23	4,626	(206)	1
Total net profit for the year		15,397	10,872	4,904
Profit attributable to:				
Owners of the Company		15,940	11,327	4,904
Non-controlling interests		(543)	(455)	-
Net profit for the year		15,397	10,872	4,904

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

Consolidated Statements of Comprehensive Income for the Year Ended December 31

	<u>2024</u>	<u>2023</u>	<u>2022</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Net profit for the year	15,397	10,872	4,904
Other comprehensive income items that after initial recognition in comprehensive income were or will be transferred to profit or loss			
Foreign currency translation differences	<u>31</u>	<u>803</u>	<u>60</u>
Total comprehensive income for the year	<u>15,428</u>	<u>11,675</u>	<u>4,964</u>
Total comprehensive income attributable to:			
Owners of the Company	15,971	11,910	4,964
Non-controlling interests	<u>(543)</u>	<u>(235)</u>	<u>-</u>
Net comprehensive income for the year	<u>15,428</u>	<u>11,675</u>	<u>4,964</u>

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

Consolidated Statements of Changes in Equity

	Ordinary share capital	Share premium	Capital reserve from foreign currency translation differences	Capital reserve from receipts on account of options	Capital reserve from transactions with non- controlling interests	Retained earnings	Total	Non- controlling interests	Total equity
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Balance as at January 1, 2022	4	7,515	-	-	-	20,017	27,536	-	27,536
Net profit for the year	-	-	-	-	-	4,904	4,904	-	4,904
Other comprehensive income for the year	-	-	60	-	-	-	60	-	60
Balance as at December 31, 2022	4	7,515	60	-	-	24,921	32,500	-	32,500
Issuance of shares	-	-	17	-	4,569	-	4,586	1,669	6,255
Share-based payment	-	-	-	181	-	-	181	70	251
Net profit (loss) for the year	-	-	-	-	-	11,327	11,327	(455)	10,872
Other comprehensive income for the year	-	-	583	-	-	-	583	220	803
Balance as at December 31, 2023	4	7,515	660	181	4,569	36,248	49,177	1,504	50,681
Share-based payment	-	-	-	80	-	-	80	31	111
Net profit (loss) for the year	-	-	-	-	-	15,940	15,940	(543)	15,397
Other comprehensive income for the year	-	-	31	-	-	-	31	-	31
Balance as at December 31, 2024	4	7,515	691	261	4,569	52,188	65,228	992	66,220

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

Consolidated Statements of Cash Flows for the Year Ended December 31

	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Cash flows from operating activities			
Net profit for the year	15,397	10,872	4,904
Adjustments:			
Depreciation and amortization	9,555	6,817	6,017
Cost of systems, net, that were sold and included in the past in fixed assets	202	1,830	290
Share-based payment	111	251	-
Gain on sale of fixed assets	-	-	(6)
Taxes on income (tax benefit)	4,626	(206)	1
Financing expenses, net	5,256	(771)	147
Other income	(707)	-	-
	34,440	18,793	11,353
Change in inventory	(16,520)	(1,194)	(7,465)
Change in trade receivables, accrued income and other receivables	(6,173)	(26,484)	(13,176)
Change in trade and other payables	12,571	5,121	12,475
	24,318	(3,764)	3,187
Interest paid	(5,414)	(5,081)	(1,867)
Income tax paid, net	(1,027)	(23)	(322)
Net cash from (used in) operating activities	17,877	(8,868)	998
Cash flows from investing activities			
Acquisition of fixed assets	(3,508)	(2,545)	(2,997)
Acquisition of intangible assets	(270)	(246)	(294)
Development costs recognized as intangible assets	(4,372)	(4,156)	(4,332)
Proceeds from sale of fixed assets	-	-	84
Investment in equity accounted investee	-	(2,887)	(1,187)
Net cash used in investing activities	(8,150)	(9,834)	(8,726)
Cash flows from financing activities			
Receipt of long-term loan	-	5,513	-
Repayment of long-term loan	(584)	(586)	(525)
Change in short-term borrowings from banks and others	7,578	23,374	14,622
Repayment of principal of lease liability	(3,081)	(3,551)	(2,898)
Issuance of shares	-	6,255	-
Net cash from financing activities	3,913	31,005	11,199
Effect of exchange rate fluctuations on cash and cash equivalents	150	855	(166)
Increase in cash and cash equivalents	13,790	13,158	3,305
Cash and cash equivalents at the beginning of the year	20,189	7,031	3,726
Cash and cash equivalents at the end of the year	33,979	20,189	7,031
Appendix A			
Non-cash activities			
Acquisition of fixed and intangible assets on credit	(15)	116	(223)
Classification of inventory to fixed assets	6,716	1,306	438

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

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 1 - General**A. Reporting entity**

Controp Precision Technologies Ltd. (hereinafter: "the Company") is an Israeli resident company incorporated in Israel. The address of the Company's registered office is 4 Haharash, Naveh Neeman Industrial Zone, Hod Hasharon. Until July 1, 2022 the Company was jointly owned by Aeronautics Ltd. (hereinafter: "Aeronautics") (50%) and Rafael Advanced Defense Systems Ltd. (hereinafter: "Rafael") (50%). On July 1, 2022 an agreement was signed between Aeronautics and Rafael, by which Aeronautics will be entitled to appoint an additional director on its behalf to the Company's board of directors, such that after the appointment Aeronautics will have 5 representatives on the board and Rafael will have 4 representatives. This right will be automatically renewed each quarter and be valid for one and a half years from the date of renewal. As a result of the aforesaid agreement, as from July 1, 2022 Aeronautics is the controlling shareholder of the Company. As from September 24, 2023, the parent company Aeronautics is 100% held by Rafael, which is a government company.

The Group manufactures and sells sophisticated and stabilized surveillance systems for real-time day and night imaging. The systems are installed on unmanned aerial vehicles, helicopters, light aircraft, guard vessels, vehicles and poles.

B. Definitions

In these financial statements:

<u>The Company</u>	- Controp Precision Technologies Ltd.
<u>The Group</u>	- The Company and its subsidiaries.
<u>Consolidated company/subsidiary</u>	- A company that its financial statements are fully consolidated with the financial statements of the Company.
<u>Related parties</u>	- Within their meaning in IAS 24 (2009), "Related Party Disclosures".
<u>CPI</u>	- The Consumer Price Index as published by the Israel Central Bureau of Statistics.
<u>Dollar</u>	- The US dollar.

C. Material events in the reporting period**(1) Iron Swords war**

On October 7, 2023 the Hamas terrorist organization launched a surprise attack on the State of Israel, following which there was a wide mobilization of reserves and the Government of Israel declared a state of war ("Iron Swords" war).

From the fourth quarter of 2023 and during 2024 there was a significant increase in orders from the local market, along with an increase from the international market.

Since this is an event that is not under the control of the Company, and matters such as the fighting continuing or stopping may affect the Company's assessments, as at the reporting date the Company is unable to assess the extent of the effect of the war on its business activities and on the business activities of its subsidiaries, and on their medium and long term results.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 2 - Basis of Preparation

A. Statement of compliance

The consolidated financial statements have been prepared by the Group in accordance with International Financial Accounting Reporting Standards (IFRSs).

The consolidated financial statements were authorized for issue by the Group's Board of Directors on February 25, 2025.

B. Functional and presentation currency

In the first nine months of 2023 there was a material change in the mix of currencies in which the Company conducted its transactions, and as at September 30, 2023 about 78% of the open orders and about 87% of total orders for 2023 were in dollars. Furthermore, the Company operates according to a dollar strategic plan focused on increasing activity with foreign markets. These reasons and other matters indicated that as from October 1, 2023 the Company operates in an economic environment that is mainly affected by the dollar.

The significant changes in indications and circumstances that were the basis in the past for deciding that the functional currency is the NIS have led to the change in the Company's functional currency to dollar as from October 1, 2023. The change in the functional currency is accounted for on a prospective basis as from the date of change.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 2 - Basis of Preparation (cont'd)**B. Functional and presentation currency (cont'd)**

Furthermore and accordingly the Company changed the presentation currency of its consolidated financial statements from NIS to dollars, so as to correspond with its new functional currency. The change in the presentation currency is a change in accounting policy that is accounted for on a retrospective basis. In other words, all the Group's comparative data were translated into a dollar presentation currency, as if until September 30, 2023 the presentation currency had always been the dollar and the functional currency had been the NIS.

As a result:

- The comparative data which until then were presented in NIS in previous financial statements were restated and translated into dollar, according to the representative exchange rate of the dollar as at September 30, 2023.
- All the items in the statement of financial position as at September 30, 2023, other than fixed assets and intangible assets, were translated from the NIS functional currency into a dollar functional currency according to the exchange rate of the dollar on that date, with these balances constituting the opening point for reporting according to the new functional currency of the Company (the dollar).
- Fixed assets and intangible assets as at September 30, 2023 were translated according to historic exchange rates.

Presented hereunder are details of the NIS-dollar exchange rate on the transition date:

	Exchange rate of \$1 in NIS
As at September 30, 2023	3.824

C. Basis of measurement

The Group's financial statements have been prepared on the cost basis except for:

- Financial instruments measured at fair value through profit or loss
- Deferred tax assets and deferred tax liabilities
- Provisions
- Investments in associates and joint ventures

D. Operating cycle

The Group has two operating cycles. For projects in progress, the operating cycle is longer than one year and may last two to three years. For the other operations, the Company's regular operating cycle is one year. As a result, current assets and current liabilities also include items the realization of which is intended and anticipated to take place within the operating cycle of these operations of up to three years.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 2 - Basis of Preparation (cont'd)**E. Use of estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the Group's financial statements requires that management of the Group make assumptions regarding circumstances and events that involve considerable uncertainty. Group Management prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Presented hereunder is information about critical estimates made while implementing the accounting policies and which have a significant effect on the financial statements:

1. Estimate of total contract costs and zero margin

The Group estimates total contract costs based on an estimate of quantities, prices and expected time schedules for the purpose of estimating the percentage of completion used to determine the amount of revenues recognized in each period and for the purpose of determining whether the contract is onerous. When the outcome of a contract cannot be reliably measured (for example in the early stages of the contract), the Group recognizes revenue from the contract only in the amount of the costs whose recovery is probable. Changes in these assessments may result in an increase or decrease in amounts of revenue and gross profit recognized over the contract period and recognition of a loss from an onerous contract. See Note 17 regarding revenue from contracts with customers.

2. Determining how performance obligations are fulfilled

When determining that control over goods or services is transferred to the customer over time and that therefore revenue should be recognized over time, the Group relies on legal opinions, provisions of the contract and relevant provisions of the law indicating that the Group has a right to enforce fulfillment of the contract. A change in this estimate may result in a change in the timing of recognizing revenue over the period of the contract. See Note 17 regarding revenue from contracts with customers.

3. Identification of performance obligations in contracts with customers

In order to identify distinct performance obligations in a contract with a customer, the Group uses judgment when it examines whether it is providing a significant service of integrating the goods or services in the contract into one integrated outcome. A change in this judgment may result in a change in the timing of recognizing revenue over the period of the contract. See Note 17 regarding revenue from contracts with customers.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 2 - Basis of Preparation (cont'd)**E. Use of estimates and judgments (cont'd)****4. Method of measuring progress (percentage of completion)**

The Group chooses a method based on inputs for measuring progress in performance. According to this method, the percentage of completion is determined based on an estimate of total costs required to complete the performance obligation. The Group is of the opinion that using this method best represents the pattern of transferring control to the customer. A change in total costs required to complete the performance obligation will result in a change in revenues and gross profit recognized in respect of the contract. See Note 17 regarding revenue from contracts with customers.

F. Initial application of new standards, amendments to standards and interpretations**(1) Amendment to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current and subsequent amendment: Non-Current Liabilities with Covenants**

The Amendment replaces certain requirements for classifying liabilities as current or non-current. According to the Amendment, a liability will be classified as non-current when the entity has the right to defer settlement for at least 12 months after the reporting period, and it "has substance" and is in existence at the end of the reporting period.

According to the Amendment, as published in October 2022, covenants with which the entity must comply after the reporting date, do not affect classification of the liability as current or non-current. Additionally, the Amendment adds disclosure requirements for liabilities subject to covenants within 12 months after the reporting date, such as disclosure regarding the nature of the covenants, the date they need to be complied with and facts and circumstances that indicate the entity may have difficulty complying with the covenants.

Furthermore, the Amendment clarifies that the conversion option of a liability will affect its classification as current or non-current, other than when the conversion option is recognized as equity. The Amendment is effective for reporting periods beginning on or after January 1, 2024. The Amendment is applicable retrospectively, including an amendment to comparative data. Application of the Amendment did not have a material effect on the financial statements.

(2) Amendment to IFRS 16, Leases: Lease Liability in a Sale and Leaseback

The amendment clarifies the accounting treatment of variable payments of a seller-lessee in a sale and leaseback transaction. According to the amendment, a seller-lessee shall include estimates of variable lease payments upon the initial measurement of the lease liability, and subsequent to initial recognition, it shall apply the subsequent measurement requirements to the lease liability, in a way that it does not recognize any gain or loss that relates to the right-of-use it retains.

The amendment is applicable for reporting periods beginning on or after January 1, 2024. The amendment was applied retrospectively for sale and leaseback transactions that occurred after the initial application of IFRS 16.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies

The accounting policies set out below have been applied consistently by Group entities for all periods presented in these consolidated financial statements.

A. Basis of consolidation

- (1) The Group implements the acquisition method to all business combinations. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred including any amounts recognized in respect of rights that do not confer control in the acquiree as well as the fair value at the acquisition date of any pre-existing equity right of the Group in the acquiree, less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date, the acquirer recognizes contingent liabilities assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured. If the Group pays a bargain price for the acquisition (meaning including negative goodwill), it recognizes the resulting gain in profit or loss on the acquisition date. Furthermore, goodwill is not adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree, the liabilities incurred by the acquirer to the previous owners of the acquiree and equity rights that were issued by the Group. In a step acquisition, the difference between the acquisition date fair value of the Group's pre-existing equity rights in the acquiree and the carrying amount at that date is recognized in profit or loss.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as: finder's fees, advisory, legal, valuation and other professional or consulting fees, other than those associated with an issue of debt or equity instruments connected to the business combination, are expensed in the period the services are received.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**(2) Subsidiaries**

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(3) Joint operation

When the Group has rights in the assets and obligations to the liabilities attributed to joint arrangements, it recognizes the assets, liabilities, revenues and expenses of the joint arrangement based on its rights in these items, including its share of the items held or incurred jointly. Gains or losses from transactions with joint operations are recognized only at the amount of the share of the other parties in the joint operation. When these transactions provide evidence of impairment of those assets, such losses are fully recognized by the Group.

(4) Investment in associates and joint ventures (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. There is a rebuttable presumption that significant influence exists when the Group holds between 20% and 50% of another entity. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account. Joint ventures are joint arrangements in which the Group has rights to the net assets of the arrangement.

Associates and joint ventures are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs. Transaction costs that are directly attributable to an expected acquisition of an associate or joint venture are recognized as an asset as part of the item of deferred expenses in the statement of financial position. These costs are added to the cost of the investment on the acquisition date. When a company first obtains significant influence or joint control in an investment that was accounted for as an available-for-sale financial asset until the date of obtaining significant influence or joint control, accumulated other comprehensive income in respect of that investment is included at that date in profit or loss.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**A. Basis of consolidation (cont'd)****(4) Investment in associates and joint ventures (equity accounted investees) (cont'd)**

The consolidated financial statements include the Group's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(5) Transactions eliminated on consolidation

Intra-group balances and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

B. Foreign currency**Foreign currency transactions**

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation to the functional currency are recognized in profit or loss.

C. Activity in other than the functional currency

The assets and liabilities of operations in other than the functional currency are translated to the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations are translated to the functional currency at exchange rates at the dates of the transactions.

Foreign currency differences arising from the translation are recognized in other comprehensive income and are presented in equity in the foreign currency translation reserve (hereinafter – "translation reserve").

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**D. Financial instruments****(1) Non-derivative financial assets*****Initial recognition and measurement of financial assets***

The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets and financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument. As a general rule, a financial asset or financial liability are initially measured at fair value plus, in the case of a financial asset or financial liability not presented at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issuance of the financial asset or financial liability. A trade receivable without a significant financing component is initially measured at the transaction price. Receivables originating from contract assets are initially measured at the carrying amount of the contract assets on the date classification was changed from contract asset to receivables.

Derecognition of financial assets

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset were transferred.

When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category

Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost; fair value through other comprehensive income – investments in debt instruments; fair value through other comprehensive income – investments in equity instruments; or fair value through profit or loss. Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model. A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:

- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**D. Financial instruments (cont'd)****(1) Non-derivative financial assets (cont'd)****Classification of financial assets into categories and the accounting treatment of each category (cont'd)**

In certain cases, on initial recognition of an equity investment that is not held for trading, the Group irrevocably elects to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or fair value through other comprehensive income as described above, as well as financial assets designated at fair value through profit or loss, are measured at fair value through profit or loss. On initial recognition, the Group designates financial assets at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Group has balances of trade and other receivables and deposits that are held within a business model whose objective is collecting contractual cash flows. The contractual cash flows of these financial assets represent solely payments of principal and interest that reflects consideration for the time value of money and the credit risk. Accordingly, these financial assets are measured at amortized cost.

Subsequent measurement and gains and losses**Financial assets at amortized cost**

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include loans, overdrafts and borrowings from banks and trade and other payables.

Initial recognition of financial liabilities

Financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Subsequent measurement of financial liabilities

Financial liabilities (other than financial liabilities at fair value through profit or loss) are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**D. Financial instruments (cont'd)****(2) Non-derivative financial liabilities (cont'd)****Derecognition of financial liabilities**

Financial liabilities are derecognized when the contractual obligation of the Group expires or when it is discharged or canceled.

(3) Derivative financial instruments

The Group sometimes enters into derivative financial instruments such as forward exchange contracts in order to hedge risks deriving from fluctuations in foreign currency exchange rates. These derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes in their fair value are recognized in profit or loss as financing income or expenses.

(4) CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is re-measured every period in accordance with the actual increase/decrease in the CPI.

(5) Share capital*Ordinary shares*

Ordinary shares are classified as equity.

E. Fixed assets**(1) Recognition and measurement**

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Demonstration systems, spare parts, servicing equipment and stand-by equipment are to be classified as fixed assets when they meet the definition of fixed assets in IAS 16, and are otherwise to be classified as inventory.

Gains and losses on disposal of a fixed asset item are determined by comparing the net proceeds from disposal with the carrying amount of the asset and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

(2) Subsequent expenditure

The costs of day-to-day servicing are recognized in profit or loss as incurred.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**E. Fixed assets (cont'd)****(3) Depreciation**

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, or other amount substituted for cost, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit or loss on a straight-line basis (unless the amount is included in the carrying amount of another asset) over the estimated useful lives of each part of the fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets under finance lease agreements including lands are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	<u>%</u>
Computers, machines and equipment	7-33
Demonstration systems	14
Office furniture and equipment	7-10
Leasehold improvements	The shorter of the lease term and the useful life
Vehicles	15

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

F. Intangible assets**(1) Goodwill**

Goodwill that arises upon the acquisition of subsidiaries is presented as part of intangible assets. For information on measurement of goodwill at initial recognition, see Paragraph A(1) of this note.

In subsequent periods goodwill is measured at cost less accumulated impairment losses.

(2) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss when incurred. When such expenditure is incurred in respect of a specific contract with a customer for the supply of products or services, the Group presents those costs as part of the cost of sales expense item in the statement of income.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**F. Intangible assets (cont'd)****(2) Research and development (cont'd)**

When such expenditure is intended for its own research and development, the Group presents these expenses as a separate item of research and development expenses in the statement of income.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is recognized as an intangible asset only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group has the intention and sufficient resources to complete development and to use or sell the asset. The costs recognized as an intangible asset in respect of development activities include the cost of the materials, direct labor and overhead costs that are directly attributable to preparing the asset for its intended use and capitalized borrowing costs. Other development expenditure is recognized in profit or loss as incurred.

In subsequent periods, capitalized development expenditure is measured at cost less accumulated amortization and accumulated impairment losses.

(3) Other intangible assets

Other intangible assets, that are acquired by the Group and have finite useful lives, are measured at cost less accumulated amortization and accumulated impairment losses.

(4) Subsequent expenditure

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

(5) Amortization

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use, since these methods most closely reflect the expected pattern of consumption of the future economic benefits embodied in each asset.

Internally generated intangible assets are not systematically amortized as long as they are not available for use, i.e. they are not yet on site or in working condition for their intended use. Accordingly, these intangible assets, such as development costs, are tested for impairment at least once a year, until such date as they are available for use.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**F. Intangible assets (cont'd)****(5) Amortization (cont'd)**

The estimated useful life for the current and comparative periods are as follows:

	%
Software	33
Development costs	14-20
Technology	20
Customer relationships	14

Amortization methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

See section H below for information about impairment of intangible assets.

G. Inventory

Inventory is measured at the lower of cost and net realizable value. Cost of inventory includes the costs incurred in acquiring the inventory and bringing it to its existing location and condition.

Inventory is measured at the lower of cost and net realizable value. The cost of inventory is measured according to the moving average method and includes costs incurred in acquiring the inventory and bringing it to its existing location and condition. In the case of work in process and finished goods inventory, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The Group examines the condition and age of the inventory in each period and determines provisions for slow moving inventories accordingly.

H. Impairment**(1) Non-derivative financial assets*****Financial assets – contract assets and receivables from lease***

The Group recognizes a provision for expected credit losses in respect of:

- Financial assets at amortized cost;
- Contract assets (as defined in IFRS 15).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort, based on the Group's past experience and informed credit assessment, and it includes forward looking information.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**H. Impairment (cont'd)****(1) Non-derivative financial assets (cont'd)****Measurement of expected credit losses**

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive. Expected credit losses are discounted at the effective interest rate of the financial asset.

Presentation of provision for expected credit losses in the statement of financial position

Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets. Expected credit losses on trade and other receivables, including contract assets, are presented separately in the statement of income and other comprehensive income. Expected credit losses on other financial assets are presented within financing expenses.

(2) Non-financial assets

The Group examines at each reporting date whether there is any indication of impairment of the Group's non-financial assets other than inventory and deferred tax assets.

If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal.

(3) Investments in associates and joint ventures

An investment in an associate and joint venture is tested for impairment when objective evidence indicates there has been impairment (as described in Paragraph (1) above).

Goodwill that forms part of the carrying amount of an investment in an associate or joint venture is not recognized separately, and therefore is not tested for impairment separately.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associate or joint venture, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the associate or joint venture, including cash flows from operations of the associate or joint venture and the consideration from the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and it is recognized in profit or loss under other expenses. An impairment loss is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment in the associate or in the joint venture.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**I. Employee benefits**

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and they are classified as defined contribution plans.

(1) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(2) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognized as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The amount recognized as an expense in respect of share-based payment awards that are conditional upon meeting service and non-market performance conditions, is adjusted to reflect the number of awards that are expected to vest.

For share-based payment awards with non-vesting conditions or with market performance vesting conditions, the grant date fair value of the share-based payment awards is measured to reflect such conditions, and therefore the Group recognizes an expense in respect of the awards whether or not the conditions have been met.

Arrangements in which the companies that hold the Group grant rights to their equity instruments to the Group's employees, are accounted for by the Group as equity-settled share-based payment transactions.

J. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that a negative outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability without adjustment for the Company's credit risk. The carrying amount of the provision is adjusted in each period to reflect the time that has passed and the amount of the adjustment is recognized as a financing expense.

The Group recognizes a reimbursement asset if, and only if, it is virtually certain that the reimbursement will be received if the Group settles the obligation. The amount recognized in respect of the reimbursement does not exceed the amount of the provision.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**J. Provisions (cont'd)****(1) Warranties**

A provision for warranties is recognized when the underlying products or services are sold. The provision is based on historical warranty data and a weighting of all possible outcomes against their associated probabilities.

(2) Legal claims

A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably. When the value of time is material, the provision is measured at its present value.

K. Revenue

The Group recognizes revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties.

Identifying the contract

The Group accounts for a contract with a customer only when the following conditions are met:

- (a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
- (b) The Group can identify the rights of each party in relation to the goods or services that will be transferred;
- (c) The Group can identify the payment terms for the goods or services that will be transferred;
- (d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
- (e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods or services transferred to the customer, will be collected.

For the purpose of paragraph (e) the Group examines, inter alia, the percentage of the advance payments received and the spread of the contractual payments, past experience with the customer and the status and existence of sufficient collateral.

If a contract with a customer does not meet all of the above criteria, consideration received from the customer is recognized as a liability until the criteria are met or when one of the following events occurs: the Group has no remaining obligations to transfer goods or services to the customer and any consideration promised by the customer has been received and cannot be returned; or the contract has been terminated and the consideration received from the customer cannot be refunded.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**K. Revenue (cont'd)****Combination of contracts**

The Group combines two or more contracts entered into on the same date or on proximate dates with the same customer (or related parties of the customer) and accounts for them as one contract when one or more of the following conditions are met:

- (a) Negotiations were held on the contracts as one package with a single commercial purpose;
- (b) The amount of the consideration in one contract depends on the price or performance of a different contract; or
- (c) The goods or services promised in the contracts (or certain goods or services promised in each one of the contracts) are a single performance obligation.

Identifying performance obligations

On the contract's inception date the Group assesses the goods or services promised in the contract with the customer and identifies as a performance obligation any promise to transfer to the customer one of the following:

- (a) Goods or services (or a bundle of goods or services) that are distinct; or
- (b) A series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer.

The Group identifies goods or services promised to the customer as being distinct when the customer can benefit from the goods or services on their own or in conjunction with other readily available resources and the Group's promise to transfer the goods or services to the customer is separately identifiable from other promises in the contract. In order to examine whether a promise to transfer goods or services is separately identifiable, the Group examines whether it is providing a significant service of integrating the goods or services with other goods or services promised in the contract into one integrated outcome that is the purpose of the contract.

Option to purchase additional goods or services

An option that grants the customer the right to purchase additional goods or services constitutes a separate performance obligation in the contract only if the option grants to the customer a material right it would not have received without the original contract.

Determining the transaction price

The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods or services promised to the customer, other than amounts collected for third parties. The Group takes into account the effects of all the following elements when determining the transaction price: variable consideration, the existence of a significant financing component, non-cash consideration, and consideration payable to the customer.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**K. Revenue (cont'd)****Variable consideration**

The transaction price includes fixed amounts and amounts that may change as a result of discounts, refunds, credits, price concessions, incentives, performance bonuses, penalties, claims and disputes and contract modifications that the consideration in their respect has not yet been agreed by the parties.

The Group includes variable consideration, or part of it, in the transaction price only when it is highly probable that its inclusion will not result in a significant revenue reversal in the future when the uncertainty has been subsequently resolved. At the end of each reporting period and if necessary, the Group revises the amount of the variable consideration included in the transaction price.

The Group estimates the amount of the variable consideration using the most likely amount method since this method best describes the amount of the consideration to which it will be entitled.

Satisfaction of performance obligations

Revenue is recognized when the Group satisfies a performance obligation by transferring control over promised goods or services to the customer.

For made-to-order products – Revenue is recognized over time, i.e. before the goods are delivered to the customer's premises, since the customer controls all the products under production, as under these contracts the products are made to the customer's specification and if a contract is terminated by the customer, the Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin.

Measurement of progress towards satisfying performance obligations

The Group recognizes revenues over time by measuring progress towards full satisfaction of the performance obligation in a manner that reflects the Group's performance in transferring the control over the goods or services that were promised to the customer. When the outcome of a performance obligation cannot be measured reliably (for example in the early stages of a contract) but the Group expects to recover the costs incurred, revenue is recognized only up to the amount of incurred costs (zero margin) up to the date the outcome of the performance obligation can be measured reliably.

The Group applies a method based on inputs for measuring progress in performance. According to this method, the percentage of completion is determined based on an estimate of total costs required to complete the performance obligation. This estimate includes direct costs as well as indirect costs relating directly to satisfaction of the performance obligation and are allocated according to a reasonable allocation key. The Group is of the opinion that using the inputs method best represents the pattern of transferring control to the customer.

When the Group uses an approach based on inputs, it does not include the effects of any inputs that do not reflect the Group's performance in transferring control over the goods or services to the customer.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**K. Revenue (cont'd)****Measurement of progress towards satisfying performance obligations (cont'd)**

When the Group uses an approach based on inputs in measuring progress in satisfying the performance obligation, a cost incurred that is not proportional to the progress towards satisfying the performance obligation, is not taken into account when measuring the stage of completion. In these cases the Group recognizes revenues in an amount equal to the cost of the goods used to satisfy the performance obligation (i.e. zero margin), when all the following conditions are met: The goods are not distinct; the customer is expected to obtain control over the goods long before receiving the related services; the cost of the goods is significant compared to total anticipated contract costs; and the Group purchases the goods from a third party and is not significantly involved in designing and manufacturing the goods.

Contract costs

Incremental costs of obtaining a contract with a customer such as sales fees to agents, are recognized as an asset when the Group is likely to recover these costs. Costs to obtain a contract that would have been incurred regardless of the contract are recognized as an expense as incurred, unless the customer can be billed for those costs.

Costs incurred to comply with a contract with a customer and not in the scope of another standard are recognized as an asset when they: relate directly to a contract the Group can specifically identify; they generate or enhance resources of the Group that will be used in satisfying performance obligations in the future; and they are expected to be recovered. In any other case the costs are recognized as an expense as incurred.

Capitalized costs are amortized in the income statement on a systematic basis that is consistent with the pattern of transfer of the goods or services to which the asset relates.

Warranty

In order to assess whether a warranty provides a distinct service to the customer and is therefore a distinct performance obligation, the Group examines, inter alia, the following characteristics: does the customer have the option to purchase the warranty separately; is the warranty required by law; the period of the warranty and the nature of the actions the Group promises to execute. In contracts with customers the Group provides warranty services to the customers according to the contract, the provisions of the law or as customary in the industry. The warranty services are provided only in order to ensure the quality of the work and compliance with the specifications agreed between the parties, and do not constitute an additional service to the customer. Therefore, the Group does not identify the warranty as a distinct performance obligation but rather accounts for it in accordance with the guidance in IAS 37 and recognizes a provision for warranty at the estimated cost of such services.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**K. Revenue (cont'd)****Contract modifications**

A contract modification is a change in the scope or price (or both) of a contract that was approved by the parties to the contract. A contract modification can be approved in writing, orally or be implied by customary business practices. A contract modification can take place also when the parties to the contract have a disagreement regarding the scope or price (or both) of the modification or when the parties have approved the modification in scope of the contract but have not yet agreed on the corresponding price modification.

When a contract modification has not yet been approved by the parties, the Group continues to recognize revenues according to the existing contract, while disregarding the contract modification, until the date the contract modification is approved or the contract modification is legally enforceable.

The Group accounts for a contract modification as an adjustment of the existing contract since the remaining goods or services after the contract modification are not distinct and therefore constitute a part of one performance obligation that is partially satisfied on the date of the contract modification. The effect of the modification on the transaction price and on the rate of progress towards full satisfaction of the performance obligation is recognized as an adjustment to revenues (increase or decrease) on the date of the contract modification, meaning on a catch-up basis.

Contract asset and contract liability

A contract asset (accrued income from executory contracts) is recognized when the Group has a right to consideration for goods or services it transferred to the customer that is conditional on other than the passing of time, such as future performance of the Group. Contract assets are classified as receivables when the rights in their respect become unconditional.

A contract liability (deferred income) is recognized when the Group has an obligation to transfer goods or services to the customer for which it received consideration (or the consideration is payable) from the customer.

Offset of contract asset and contract liability

An asset and liability relating to the same contract are presented on a net basis in the statement of financial position. On the other hand, a contract asset and contract liability deriving from different contracts are presented on a gross basis in the statement of financial position.

Principal or agent

When another party is involved in providing goods or services to the customer, the Group examines whether the nature of its promise is a performance obligation to provide the defined goods or services itself, which means the Group is a principal and therefore recognizes revenue in the gross amount of the consideration, or to arrange that another party provide the goods or services which means the Group is an agent and therefore recognizes revenue in the amount of the net commission.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**K. Revenue (cont'd)****Principal or agent (cont'd)**

The Group is a principal when it controls the promised goods or services before their transfer to the customer. Indicators that the Group controls the goods or services before their transfer to the customer include, inter alia, as follows: the Group is the primary obligor for fulfilling the promises in the contract; the Group has inventory risk before the goods or services are transferred to the customer; and the Group has discretion in setting the prices of the goods or services.

In projects in which the work is executed by means of subcontractors, the Group serves as a principal when its obligation is to provide the goods or services itself and therefore the revenue is recognized at the gross amount of the consideration.

L. Leases**Determining whether an arrangement contains a lease**

On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

- (a) The right to obtain substantially all the economic benefits from use of the identified asset; and
- (b) The right to direct the identified asset's use.

For lease contracts that contain non-lease components, such as services or maintenance, that are related to a lease component, the Group elected to account for the contract as a single lease component without separating the components.

Leased assets and lease liabilities

Contracts that award the Group control over the use of a leased asset for a period of time in exchange for consideration, are accounted for as leases. Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease.

Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the lessee is used.

Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

The Group has elected to apply the practical expedient by which short-term leases of up to one year and/or leases in which the underlying asset has a low value, are accounted for such that lease payments are recognized in profit or loss on a straight-line basis, over the lease term, without recognizing an asset and/or liability in the statement of financial position.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**L. Leases (cont'd)****The lease term**

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

Variable lease payments

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate existing at the commencement of the lease and are included in the measurement of the lease liability. When the cash flows of future lease payments change as the result of a change in an index or a rate, the balance of the liability is adjusted against the right-of-use asset. Other variable lease payments that are not included in the measurement of the lease liability are recognized in profit or loss in the period in which the event or condition that triggers payment occurs.

Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

- Buildings 2.4-9 years
- Vehicles 3 years

Lease modifications

When a lease modification increases the scope of the lease by adding a right to use one or more underlying assets, and the consideration for the lease increased by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the contract's circumstances, the Group accounts for the modification as a separate lease.

In all other cases, on the initial date of the lease modification, the Group allocates the consideration in the modified contract to the contract components, determines the revised lease term and measures the lease liability by discounting the revised lease payments using a revised discount rate.

For lease modifications that decrease the scope of the lease, the Group recognizes a decrease in the carrying amount of the right-of-use asset in order to reflect the partial or full cancellation of the lease, and recognizes in profit or loss a profit (or loss) that equals the difference between the decrease in the right-of-use asset and re-measurement of the lease liability.

For other lease modifications, the Group re-measures the lease liability against the right-of-use asset.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**M. Financing income and expenses**

Financing income comprises interest income on funds invested, changes in the fair value of financial assets at fair value through profit or loss, and foreign currency gains that are recognized in profit or loss. Interest income is recognized as it accrues using the effective interest method.

Financing expenses comprise interest expense on borrowings and foreign currency losses.

Foreign currency gains and losses on financial assets and financial liabilities are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

Interest paid and dividends paid are presented as part of cash flows from operating and financing activities, respectively.

N. Income tax expense

Income tax in the statement of comprehensive income comprises current and deferred tax. Current tax and deferred tax are recognized in the statement of comprehensive income except to the extent that they relate to items recognized in equity. In those cases the tax effect is also recognized in the related equity item.

(1) Current taxes

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years and any tax arising from dividends.

Offset of current tax assets and liabilities

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

(2) Deferred taxes

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences:

- The initial recognition of goodwill,
- The initial recognition of assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss,
- Differences relating to investments in subsidiaries, joint arrangements and associates, to the extent that the Group is able to control the timing of the reversal of the temporary difference and it is probable that they will not reverse in the foreseeable future, either by way of selling the investment or by way of distributing dividends in respect of the investment.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 3 - Material Accounting Policies (cont'd)**N. Income tax expense (cont'd)****(2) Deferred taxes (cont'd)**

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

O. New standards and interpretations not yet adopted**(1) Amendments to IFRS 9, Financial Instruments, and IFRS 7, Financial Instruments: Disclosures, Amendments to the Classification and Measurement of Financial Instruments**

The amendments address the following matters:

- Clarifications are added as to the date of recognition and derecognition of financial instruments, and an exception is added with respect to the timing of derecognizing financial liabilities settled by electronic transfers of cash;
- Classification of financial assets –
 - Updated application guidance for assessing whether contractual cash flows of a financial asset are solely payments of principal and interest (SPPI) when the contractual terms of the asset include contingent features (such as linkage to ESG measures) and examples on the matter.
 - Clarification as to when financial instruments are contractually linked and when they are non-recourse, for the purpose of determining whether they are solely payments of principal and interest (SPPI).
 - Updated disclosure requirements for financial instruments having contingent features that are not directly related to changes in the basic risks/cost of the instrument; and
 - Updated disclosure requirements for investments in equity instruments measured at fair value through other comprehensive income (FVOCI).

The amendments are effective for annual reporting periods beginning on or after January 1, 2026. Earlier application is permitted. An entity may choose to early apply all the amendments or only the amendments regarding the classification of financial assets (including the amendment to IFRS 7 that includes the related disclosure requirements).

The amendment to IFRS 9 is to be applied retrospectively and there is no requirement to restate comparative data. In the application of the amendment to IFRS 7 an entity is not required to provide disclosures with respect to periods before the initial date of application of the amendments. The Company is examining the effects of the amendments on the financial statements with no plans for early adoption.

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 3 - Material Accounting Policies (cont'd)****O. New standards and interpretations not yet adopted (cont'd)****(2) IFRS 18, Presentation and Disclosure in Financial Statements**

This standard replaces IAS 1, *Presentation of Financial Statements*. The standard provides guidance for improving the structure and content of the financial statements, particularly the income statement.

The standard includes new disclosure and presentation requirements as well as requirements that were taken from IAS 1, *Presentation of Financial Statements*.

As part of the new disclosure requirements, it is required to present two subtotals in the income statement: operating profit and profit before financing and taxes. Furthermore, the results in the income statement will be classified into three new categories: an operating category, an investing category and a financing category.

In addition to the changes in the structure of the income statements, the standard also includes a requirement to provide separate disclosure in the financial statements regarding the use of management-defined performance measures (MPM).

Furthermore, the standard adds specific guidance for aggregation and disaggregation of items in the financial statements and in the notes.

The standard's initial date of application is for annual reporting periods beginning on or after January 1, 2027 with earlier application being permitted.. The Company is examining the effects of the standard on its financial statements with no plans for early adoption.

P. Indexes and exchange rates

Balances in or linked to foreign currency are stated in the financial statements on the basis of the representative exchange rates at the reporting date. Balances that are linked to the CPI are stated on the basis of the relevant index of each linked asset or liability.

Below are details of the representative exchange rates and the CPI:

	<u>CPI</u>	<u>NIS/USD exchange rate</u>	<u>EUR/USD exchange rate</u>
As at December 31, 2024	114.8	3.647	1.04
As at December 31, 2023	119.5	3.627	1.11
As at December 31, 2022	116.1	3.519	1.07
Change in the year ended:			
December 31, 2024	3.24%	0.55%	(5.88%)
December 31, 2023	2.93%	3.07%	3.74%
December 31, 2022	5.28%	13.15%	(5.31%)

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 4 - Trade Receivables****A.** Composition:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Domestic customers	18,762	26,995
Foreign customers	22,635	8,758
	41,397	35,753
Less – provision for doubtful debts	(444)	(449)
	40,953	35,304

B. See Note 24 for information on trade receivables due from related and interested parties**C.** See Note 16 on financial instruments, for further information about the Group's exposure to credit and currency risks.**D.** Movement in the Company's provision for doubtful debts is as follows:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Balance at the beginning of the year	449	303
Foreign currency differences	(5)	19
Movement	-	127
	444	449

E. Management of the Group is of the opinion that other than the aforesaid, there is no need for a provision for impairment of customer debts that are past due.

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 4 - Trade Receivables**

- F. Presented hereunder is an analysis of trade receivables for which no impairment was recognized (provision for doubtful debts) according to the period collection is past due compared to the reporting date.

1. Composition:

	Customers not yet past due	Days past due of customers			Total
		Up to		More than	
		30 days	30-90 days	90 days	
		\$ thousands			
December 31, 2024	26,888	5,682	5,089	3,294	40,953
December 31, 2023	28,876	1,532	3,289	1,607	35,304

2. As at December 31, 2024 debit balances in the amount of \$ 14,065 thousand (December 31, 2023 – \$ 6,428 thousand) are past the contractual payment date, but the Group did not create a provision in respect thereto. These balances are related to several customers and according to the Group's experience and the assessment of its managers the debts will be repaid in full.

Note 5 - Accrued Income from Work in Progress

- A. Presented as part of current assets:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Costs incurred plus recognized profits	331,770	251,972
Less billings issued to customers for work	(264,727)	(184,526)
Total accrued income from work in progress	67,043	67,446

Note 6 - Other Receivables

- Composition:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Prepaid expenses	771	770
Advances to suppliers	2,048	1,506
Other receivables	643	297
	3,462	2,573

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 7 - Inventory**

Composition:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Components and spare parts	17,831	12,613
Work in progress	3,909	874
Finished goods	3,315	1,069
Provision for impairment of inventory	(2,499)	(1,804)
	<u>22,556</u>	<u>12,752</u>

Note 8 - Subsidiaries**A. Details in respect of consolidated companies**

Presented hereunder is a list of the Group's subsidiaries:

<u>Name of company</u>	Principal location of the company's activity	The Group's ownership interest in the subsidiaries as at December 31	
		2024	2023
Controp USA	USA	100%	100%
E.S.C. Baz Ltd.	Israel	100%	100%
MicroCon Vision Ltd. (B.1)	Israel	72%	72%
Controp – Paras Technologies Private Ltd.	India	70%	70%

B. Additional information

- On June 30, 2022 the Company established a wholly owned subsidiary named MicroCon Vision Ltd. (hereinafter: "MicroCon"), which engages in research, development and marketing of technologies and products in the market of innovated Electro-Optical solutions for Micro ISR Payload for sUAS and EOIR Seekers for Loitering Munition.

On August 31, 2022, the Company entered into an asset transfer agreement with MicroCon pursuant to Section 104G(a) of the Income Tax Ordinance (New Version) – 1961, by which the Company transferred the micro-stamp operation to MicroCon and in consideration MicroCon allotted to the Company 999,999 no-par-value ordinary shares.

On January 16, 2023, the Company entered into a share purchase agreement with Poalim Equity Ltd. and SYN-RG-Ai Ltd. (Poalim Equity Ltd. and SYN-RG-Ai Ltd. are hereinafter together called the: "investors"), by which MicroCon issued to the investors total of 388,886 preferred A shares in consideration for \$7 million, according to a pre-money valuation of \$20 million.

Presented hereunder are the holding rates (allocated) of MicroCon as at the reporting date: the Company – 72%, Poalim Equity Ltd. – 20%, SYN-RG-Ai Ltd. – 8%.

See Note 15.C for information regarding options that were granted in 2022 to the employees of MicroCon and the employees of the Company.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 8 - Subsidiaries (cont'd)**B. Additional information (cont'd)**

2. On May 30, 2023 the Company signed a joint venture ("JV") agreement with Paras Defence and Space Technologies (hereinafter: "Paras") to incorporate a company in Mumbai, India, which will be held by the Company at the rate of 70% and by Paras at the rate of 30%, for the purpose of increasing and expanding the Company's business in the Indian security market and executing projects for the supply of systems tailored to the local market (in India). The company did not have any real activity in 2023.

On August 2024 the subsidiary Controp – Paras Technologies Private ltd. signed an agreement with local customer, based on the Company products as OEM ("Original Equipment Manufacturer") for a total consideration of USD 36 million. The contract milestones and systems supply will be spread over 3 to 4 years.

On September 2024, Controp-Paras entered into a subcontract agreement with Paras for the aforementioned project. In view of the above, on September 2024, Paras entered into an agreement with the Company for training and infrastructure equipment for the project.

3. On November 10, 2022 the Company and a related party, Golden Consultancy Investments and Development Ltd. (hereinafter: "Golden"), signed a general partnership agreement pursuant to which the N. Yamin partnership (hereinafter: "N. Yamin Partnership") was founded which will be held 70% by the Company and 30% by Golden. The objective of the Partnership is to construct a building in partnership with Mega Or Holdings Ltd. (hereinafter: "Mega Or") for the needs of the Company. According to the agreement, the management committee of N. Yamin Partnership will include 2 representatives of the Company and 2 representatives of Golden. Accordingly, the Company does not control N. Yamin Partnership and its interest in it is accounted for in accordance with the provisions of IFRS 11 as an equity accounted joint venture.

Along with the aforesaid agreement, N. Yamin Partnership signed three agreements with Mega Or as follows:

- a. An agreement to sell 50% of the real estate rights owned by Mega Or in a lot in Neve Yamin in consideration for NIS 19 million, on which the Company's new building will be built.
- b. A partnership agreement between Mega Or and N. Yamin Partnership which defines the relationship between them as joint owners of real estate rights. According to the partnership agreement, Mega Or and N. Yamin Partnership will be responsible for the project's construction and financing, each according to its holding rate. In order to finance the expected construction costs, Mega Or and N. Yamin Partnership entered into an agreement with Discount Bank and when the construction is completed each party will repay to the bank its share of the financing transaction.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 8 - Subsidiaries (cont'd)

B. Additional information (cont'd)

- c. In addition, and along with the aforesaid agreements, the Company signed a construction, lease and operation agreement with N. Yamin Partnership and Mega Or, which arranges the process of constructing the building and the lease relations. The lease term is 24 years and 11 months from the date of signing the agreement. The annual lease payments will amount to 8% of the total construction cost of the project which at the reporting date is estimated at NIS 238 million. This amount includes an investment in land valued NIS 38.7 million. The rest of the project is financed by bank and owner's loan. As of the reporting date, the overall financing amount in addition to the land is NIS 126 million.

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 9 - Fixed Assets, Net****A. Composition:**

	Computers, machines and equipment	Demonstration systems	Office furniture and equipment	Leasehold improvements	Vehicles	Total
2024	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cost						
Balance as at January 1, 2024	10,096	3,408	960	5,173	364	20,001
Additions	8,509	1,071	165	285	173	10,203
Disposals	(4)	(314)	(3)	(38)	(87)	(446)
Balance as at December 31, 2024	18,601	4,165	1,122	5,420	450	29,758
Accumulated depreciation						
Balance as at January 1, 2024	5,767	1,158	432	3,923	220	11,500
Current year depreciation	2,107	363	207	584	44	3,305
Disposals	(4)	(118)	(3)	(38)	(81)	(244)
Balance as at December 31, 2024	7,870	1,403	636	4,469	183	14,561
Carrying amount December 31, 2024	10,731	2,762	486	951	267	15,197

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 9 - Fixed Assets, Net (cont'd)****A.** Composition: (cont'd)

2023	Computers, machines and equipment \$ thousands	Demonstration systems \$ thousands	Office furniture and equipment \$ thousands	Leasehold improvements \$ thousands	Vehicles \$ thousands	Total \$ thousands
Cost						
Balance as at						
January 1, 2023	7,399	4,951	872	5,089	344	18,655
Additions	2,594	1,101	119	117	83	4,014
Disposals	-	(4,020)	-	-	(77)	(4,097)
Effect of change in currency (*)	103	1,376	(31)	(33)	14	1,429
Balance as at December 31, 2023	10,096	3,408	960	5,173	364	20,001
Accumulated depreciation						
Balance as at						
January 1, 2023	4,681	1,490	437	3,411	255	10,274
Current year depreciation	962	826	57	445	17	2,307
Disposals	-	(2,190)	-	-	(77)	(2,267)
Effect of change in currency (*)	124	1,032	(62)	67	25	1,186
Balance as at December 31, 2023	5,767	1,158	432	3,923	220	11,500
Carrying amount						
December 31, 2023	4,329	2,250	528	1,250	144	8,501

(*) See Note 2.B

- B.** The item of computers, machines and equipment comprises mainly electro-optical, electronic and mechanical equipment.
- C.** The fixed assets include assets that have been fully depreciated and are still in use. As at December 31, 2024 the original cost of such assets is \$ 4,296 thousand (December 31, 2023: \$ 3,436 thousand).

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 10 - Intangible Assets, Net****A. Composition:**

2024	Goodwill	Know-how and	Customer	Software	Development	Total
	\$ thousands	technology	relationships	\$ thousands	costs	\$ thousands
		\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cost						
Balance as at January 1, 2024	2,735	408	2,019	3,150	23,029	31,341
Additions	-	-	-	275	4,372	4,647
Balance as at December 31, 2024	2,735	408	2,019	3,425	27,401	35,988
Accumulated Amortization						
Balance as at January 1, 2024	-	227	900	2,755	5,848	9,730
Current year amortization	-	91	331	250	2,675	3,347
Balance as at December 31, 2024	-	318	1,231	3,005	8,523	13,077
Carrying amount December 31, 2024	2,735	90	788	420	18,878	22,911

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 10 - Intangible Assets, Net (cont'd)****A.** Composition: (cont'd)

2023	Goodwill	Know-how and	Customer	Software	Development	Total
	\$ thousands	technology	relationships	\$ thousands	costs	\$ thousands
		\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Cost						
Balance as at						
January 1, 2023	2,760	348	1,722	2,789	18,190	25,809
Additions	-	-	-	199	4,156	4,355
Effect of change in						
currency (*)	(25)	60	297	162	683	1,177
Balance as at						
December 31, 2023	2,735	408	2,019	3,150	23,029	31,341
Accumulated						
Amortization						
Balance as at						
January 1, 2023	-	116	486	2,457	4,726	7,785
Current year						
amortization	-	81	294	190	786	1,351
Effect of change in						
currency (*)	-	30	120	108	336	594
Balance as at						
December 31, 2023	-	227	900	2,755	5,848	9,730
Carrying amount						
December 31, 2023	2,735	181	1,119	395	17,181	21,611

(*) See Note 2.B.

B. Costs of development in progress represent amounts qualifying for capitalization that were expended by the Group in respect of the development of systems.

C. Current amortization of software and development costs is recognized in cost of sales.

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 11 - Credit from Banks and Others**

Composition:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Overdraft in NIS	20,559	20,583
Dollar denominated loans from banks	44,022	20,386
Unlinked NIS loans from banks	19,537	18,841
Loan from related party	-	11,028
	84,118	70,838
Current maturities of long-term loans	586	1,021
	84,704	71,859

- The Group has agreements with Bank Leumi, Bank Hapoalim, Discount Bank and First International Bank of Israel with respect to loans and guarantees totaling up to \$ 149.5 million, As at the reporting date, net guarantees less cash balances in the amount of \$ 68.8 million have been utilized (of which \$ 24.1 million in respect of bank guarantees). The Company undertook to meet financial covenants in its annual and semiannual financial statements relating to the amount of new orders, ratio of net financial debt to operating working capital, ratio of net financial debt to tangible shareholders' equity and ratio of net financial debt to EBITDA. As at the reporting date the Company is in compliance with all the covenants of the banks.
- On July 23, 2023 the Company took a short-term loan in the amount of \$ 5.5 million from a parent company. The loan interest was Prime + 2.8% from the date of actually withdrawal until full repayment. On November 22, 2023, the loan agreement was updated such that the amount of the loan increased to \$ 11 million and the interest rate was changed to Prime – 0.85%. On July 2024 the Company fully repaid the \$ 11 million loan to the parent company.

Note 12 - Trade Payables

Composition:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Domestic	32,411	17,634
Foreign	1,115	833
	33,526	18,467

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 13 - Other Payables**

Composition:

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Payables for salary and related expenses	6,013	4,890
Provision for vacation	2,377	1,694
Provision for royalties	160	151
Institutions	2,015	3,393
Accrued expenses	4,727	10,633
Payables and other credit balances	2,980	-
	18,272	20,761

Note 14 - Commitments**A. Guarantees**

As at December 31, 2024 the Group has provided its customers down payments and performance guarantees of banks in the total amount of \$ 24,191 million (2023 – \$ 13,939 million).

B. Commitments

- On May 28, 2014 the Company entered into an agreement with Hod Hasharon Towers Ltd. ("**the lessor**") to lease a building having a total area of 5,700 sq. meters in the Naveh Neeman industrial zone of Hod Hasharon ("**the lease contract**"). The annual lease payments amount to \$ 1.4 million. The lease period began on January 1, 2015, is for 7 years and has an option to extend it by an additional 6 years with possibility of early termination after 3 years.
- On June 1, 2017 the Company signed a first addendum to the lease contract. In the addendum it was agreed to lease an additional area of 1,400 sq. meters in a building next to the primary area ("**the additional area**"). The annual lease payments in respect of the additional area amount to \$ 0.4 million. The lease period began on June 1, 2017, is for 24 months (until May 30, 2019) and the Company was granted an option to extend the engagement by two additional periods of 12 months. The option in respect of the additional area was exercised and the lease period was extended.
- On November 18, 2020 the Company and the lessor signed a second addendum to the lease contract. In the addendum the Company and the lessor agreed to extend the lease period of the entire leased area (including the additional area) until December 31, 2023 at the same terms as the original contract.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 14 - Commitments

B. Commitments (cont'd)

4. On October 10, 2021 the Company and the lessor signed a third addendum to the lease contract. In the addendum the Company undertook to lease an additional 500 sq. meters. The annual lease payments amount to \$ 101,987. It was agreed that the lease period of this area would be the same as the rest of the leasehold, meaning until December 31, 2023.
5. On December 23, 2021 the Company and the lessor signed a fourth addendum to the lease contract. In the addendum the Company undertook to lease an additional 500 sq. meters. The annual lease payments amount to \$ 101,987. It was agreed that the lease period of this area would be the same as the rest of the leasehold, meaning until December 31, 2023.
6. On May 17, 2022 the Company and the lessor signed a fifth addendum to the lease contract. In the addendum the Company undertook to lease an additional 400 sq. meters. The annual lease payments amount to \$ 81,590. It was agreed that the lease period of this area would be the same as the rest of the leasehold, meaning until December 31, 2023.
7. On August 19, 2024 the Company and the lessor signed a Sixth addendum to the lease contract. In the addendum the Company undertook to lease an additional 200 sq. meters. It was agreed that the lease period will end on June 30, 2025, with an option to extend the lease for an additional three months. As of the reporting date, the Company does not intend to extend the lease agreement.
8. On October 19, 2014 the Company entered into an agreement with the Ministry of Defense to pay royalties at the rate of 0.36% from the revenues that derive from sales of products outside of Israel. Furthermore, the agreement states that if the Company's consolidated revenues exceed NIS 200 million the rate of the royalties will increase to 0.4%. The agreement applies to the Company retroactively from 2012. In the reporting year the Company recorded expenses in respect of royalties in the amount of \$ 171 thousand (2023– \$ 170 thousand).

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 15 - Shareholders' Equity**A.** Composition of share capital

	December 31, 2024		December 31, 2023	
	Authorized	Issued and paid up	Authorized	Issued and paid up
	Number of shares		Number of shares	
Ordinary shares of NIS 1 par value each	20,000	10,588	20,000	10,588

B. Rights attached to the sharesOrdinary shares

1. The right to be invited and to participate in all the Company's general meetings, both ordinary and extraordinary, and a right to one vote in respect of each share held by the shareholder in every vote and in every general meeting in which the shareholder participates.
2. A right to receive dividends.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 15 - Shareholders' Equity (cont'd)**B. Rights attached to the shares (cont'd)**Ordinary shares (cont'd)

3. A right to participate in a distribution of the Company's assets upon liquidation.

C. Options to employees

On December 25, 2022 the board of directors of MicroCon approved the adoption of a share option plan (the: "**Plan**"), according to which MicroCon shall be able to grant options to selected employees and services providers of MicroCon and its affiliated company (the: "**Grantees**"). The options will be allotted to the Israeli Grantees pursuant to the provisions of Section 102 of the Ordinance, which according to it and the provisions of the Ordinance, a trustee was appointed who will hold the options and the exercised shares for the offerees, insofar as exercised by the offerees, over the period prescribed in the Ordinance. The exercise price for each Grantee shall be as determined by the board of directors of MicroCon and specified in the applicable option agreement. Unless otherwise determined by the board of directors of MicroCon with respect to any specific grantee and/or to any specific grant, the Options shall vest (become exercisable) over a period of 3 years commencing on the date of grant, such that 33.3% of the options shall vest upon the completion of a full 12 months period of continuous services and the remainder shall vest in 8 equal quarterly installments such that 8.33% of the options shall vest upon the lapse of each full additional 3 months of the grantee's continuous Services thereafter, until all Options are vested. In the occurrence (closing) of an IPO or a Merger Transaction, all the unvested options shall be accelerated and immediately fully vested; provided that the Grantee remains as an employee or a service provider of MicroCon or its affiliated company upon the closing date of such IPO or a Merger Transaction. The benefit inherent in the options that were allotted to the offerees and which will be included in the books of MicroCon, based on the fair value on their grant date (as estimated by an external independent valuer) according to the binomial model, amounted to \$470 thousand, which will be included in the statement of income against a capital reserve over the vesting period of the options that were granted. In 2024 MicroCon recorded expenses in the amount of \$ 111 thousand in respect of the options (2023 – MicroCon recorded expenses in the amount of \$ 251 thousand).

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 16 - Financial Instruments and Risk Management

A. General

The Group has exposure to the following principal risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

B. Market risks

The Group is exposed to market risks in the ordinary course of business, including to a difference between liabilities and assets that are linked to the dollar or CPI and a difference between the duration of the liabilities and assets.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 16 - Financial Instruments and Risk Management (cont'd)**B. Market risks (cont'd)**

The Group charges its customers by one of two methods:

- 1) Customers are charged on the basis of the rate of the US dollar, Singapore dollar or euro and the customer pays the debt in the stated currency.
- 2) Customers are charged in NIS linked to the dollar exchange rate on the date of issuing the invoice.

The exposure is low on the domestic market because of the linkage mechanism of the receipts to cost components as customary in the Ministry of Defense and which the Company sometimes requires also from other customers in large orders.

The Company's risk management policy

The Group regularly reviews the Company's overall risks, and focuses on actions to reduce to a minimum possible negative effects on the Group's financial performance. The Group acts to hedge the risk in respect of all the material net dollar accounting assets/liabilities, to the extent possible. Furthermore, the Group demands credit facilities or advances from its customers in order to reduce the credit risks.

C. Credit risks

As at December 31, 2024 most of the cash and cash equivalents are deposited in banks in Israel. As at December 31, 2024 about 55% of the Group's customer balances are foreign. In 2024 the Group had 3 major customers (at least 10% of the Group's revenues) that at the reporting date their net balance constitutes 43% of the total balance of customers. The Group's revenues in 2023 from these 3 major customers (at least 10% of the Group's revenues) account for about 60% of the Group's total revenues.

The Group provides credit to its customers for the purchase of products, and on the other hand requests advances, bank guarantees or documentary credit from some of its customers.

The Group regularly reviews the credit granted to customers and the possibility of losses arising from providing such credit. The Group creates a specific provision in respect of debts that their collection is doubtful.

The Group recognizes a provision for impairment that reflects its assessment of losses incurred from customers and other receivables. The main components of this provision are specific loss components that relate to specific significant exposures.

D. Interest rate risk

Fixed-rate assets and liabilities of the Group are not measured at fair value through profit or loss, and the Group does not designate derivatives (interest rate swaps) as hedging instruments pursuant to the fair value hedging model. Therefore, a change in interest rates at the end of the reporting period is not expected to have any effect on profit or loss.

E. Currency (exchange rate) and linkage risks

The balance sheet exposure of the Group is mainly to fluctuations in the exchange rate of the NIS as presented in the linkage basis report, see paragraph F hereunder.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 16 - Financial Instruments and Risk Management (cont'd)

F. Linkage terms of monetary balances in the financial statements

	December 31, 2024		
	Unlinked	In foreign currency or linked thereto*	Total
	\$ thousands	\$ thousands	\$ thousands
Assets			
Cash and cash equivalents	11,465	22,514	33,979
Trade receivables	22,561	18,392	40,953
Accrued income from work in progress	45,739	21,304	67,043
Other receivables	-	2,656	2,656
Total financial assets	79,765	64,866	144,631
Liabilities			
Short-term borrowings from banks	44,608	40,096	84,704
Trade payables	17,172	16,354	33,526
Other payables	4,915	19,221	24,136
Loans from banks	5,660	-	5,660
Total financial liabilities	72,355	75,671	148,026
	December 31, 2023		
	Unlinked	In foreign currency or linked thereto*	Total
	\$ thousands	\$ thousands	\$ thousands
Assets			
Cash and cash equivalents	4,915	15,274	20,189
Trade receivables	6,225	29,079	35,304
Accrued income from work in progress	46,932	20,514	67,446
Other receivables	-	1,221	1,221
Total financial assets	58,072	66,088	124,160
Liabilities			
Short-term borrowings from banks	20,821	51,038	71,859
Trade payables	5,532	12,935	18,467
Other payables	8,100	13,185	21,285
Loans from banks	6,261	5,085	11,346
Total financial liabilities	40,714	82,243	122,957

(*) Mainly NIS

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 16 - Financial Instruments and Risk Management (cont'd)****G. Fair value of financial instruments**

- 1) The carrying amounts of cash and cash equivalents, accrued income from work in progress, trade receivables, other receivables, borrowings from banks, trade payables and other payables are the same or proximate to their fair value.

Note 17 - Revenues from Sales and Work Performed**A. Revenues from sales, work performed and services rendered**

1. Composition:

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Revenues from sale of systems	42,027	29,527	13,579
Revenues from construction contracts	92,044	82,298	74,993
Revenues from service and maintenance	26,518	18,476	14,137
	160,589	130,301	102,709

2. The Group's revenues were produced in the Company's country of residence (Israel) and outside of it as follows:

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Israel	100,475	88,775	75,493
Asia	41,792	30,390	18,697
Other	18,322	11,136	8,519
	160,589	130,301	102,709

3. Sales to major customers (including revenues from construction contracts):

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Customer A	47,647	42,468	32,645
Customer B	30,643	24,251	21,078
Customer C	17,796	13,954	13,909
Customer D	9,522	12,538	4,415
Customer E	9,064	8,651	5,214
Customer F	6,386	4,839	3,925
Customer G	3,640	4,359	3,598

The names of the customers are not the same between the presented periods.

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 18 - Cost of Sales and Work Performed**

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	27,168	25,938	21,355
Materials and components used	44,508	33,450	27,386
Outside work and subcontractors	25,806	20,027	18,025
Rent and maintenance of buildings	3,666	2,046	910
Maintenance of vehicles	725	659	642
Depreciation and amortization	7,359	4,539	4,208
Royalties	171	170	81
Other manufacturing expenses	3,850	3,140	3,634
	113,253	89,969	76,241

Note 19 - Selling and Marketing Expenses

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	3,152	2,777	2,833
Sales commissions	800	95	190
Advertising, exhibitions and sales promotion	522	1,216	1,183
Depreciation	744	1,162	1,032
Foreign travel	339	249	268
Maintenance of vehicles	78	37	25
Other	581	329	239
	6,216	5,865	5,770

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 20 – General and Administrative Expenses**

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	5,340	4,408	3,564
Rent and maintenance of buildings	181	106	59
Maintenance of vehicles	99	62	52
Professional services	410	402	309
Depreciation and amortization	1,452	1,116	777
Other	650	497	336
	8,132	6,591	5,097

Note 21 - Research and Development Expenses

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Salaries and related expenses	11,978	6,054	8,399
Salaries capitalized to development costs	(4,372)	(4,156)	(4,332)
Subcontractors	89	1,943	504
	7,695	3,841	4,571

Note 22 - Financing Expenses, Net**Financing expenses**

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Foreign currency differences	-	7,282	3,745
Interest expenses to banks	6,330	5,704	2,079
Other interest expenses	761	649	328
	7,091	13,635	6,152

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 22 - Financing Expenses, Net (cont'd)****Financing income**

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Foreign currency differences	(700)	-	-
Interest income from Income Tax	-	(11)	(12)
Interest income from deposits and derivative financial instruments and other	(320)	(255)	(7)
	(1,020)	(266)	(19)
	6,071	13,369	6,133

Note 23 - Taxes on Income**A. Details regarding the tax environment of the Group****(1) Corporate tax rate**

Presented hereunder are the tax rates relevant to the Company in the years 2022-2024:

2022 – 23%

2023 – 23%

2024 – 23%

(2) Benefits under the Law for the Encouragement of Capital InvestmentsAmendment to the Law for the Encouragement of Capital Investments – 1959

On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – “the Amendment”). The Amendment is effective from January 1, 2011 and its provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company (which is not a government company), per the definition of these terms in the Amendment.

The Company can choose not to be included in the scope of the amendment to the Encouragement Law and to stay in the scope of the law before its amendment until the end of the benefits period of its approved/beneficiary enterprise.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 23 - Taxes on Income (cont'd)**A. Details regarding the tax environment of the Group (cont'd)****(2) Benefits under the Law for the Encouragement of Capital Investments (cont'd)**Amendment to the Law for the Encouragement of Capital Investments – 1959 (cont'd)

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the “Ireland” track and the “Strategic” track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company’s income entitled to benefits. On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which raised the tax rates on preferred income as from the 2014 tax year as follows: 9% for Development Area A and 16% for the rest of the country. On December 21, 2016 the Knesset passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, which reduced the tax rate on preferred income for a preferred enterprise in Development Area A from 9% to 7.5% as from 2018. Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% in Development Area A and of 8% in the rest of the country.

The Amendment also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is an Israeli resident company. A tax rate of 20% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties.

The Group examined the effect of the Amendment on its financial statements and decided to enter the scope of the Amendment as from the 2011 tax year.

On December 21, 2016 the Knesset plenum passed the second and third reading of the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016 in which the Encouragement Law was also amended (hereinafter: “the Amendment”). The Amendment added new tax benefit tracks for a “preferred technological enterprise” and a “special preferred technological enterprise” which award reduced tax rates to a technological industrial enterprise for the purpose of encouraging activity relating to the development of qualifying intangible assets.

The benefits will be awarded to a “preferred company” that has a “preferred technological enterprise” or a “special preferred technological enterprise” with respect to taxable “preferred technological income” per their definition in the Encouragement Law.

Preferred technological income that meets the conditions required in the law, will be subject to a reduced corporate tax rate of 12%, and if the preferred technological enterprise is located in Development Area A to a tax rate of 7.5%. A company that owns a special preferred technological enterprise will be subject to a reduced corporate tax rate of 6% regardless of the development area in which the enterprise is located. The Amendment is effective as from January 1, 2017.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 23 - Taxes on Income (cont'd)**A. Details regarding the tax environment of the Group (cont'd)****(2) Benefits under the Law for the Encouragement of Capital Investments (cont'd)**Amendment to the Law for the Encouragement of Capital Investments – 1959 (cont'd)

On May 16, 2017 the Knesset Finance Committee approved Encouragement of Capital Investment Regulations (Preferred Technological Income and Capital Gain of Technological Enterprise) – 2017 (hereinafter: “**the Regulations**”), which provides rules for applying the “preferred technological enterprise” and “special preferred technological enterprise” tax benefit tracks including the Nexus formula that provides the mechanism for allocating the technological income eligible for the benefits.

On April 30, 2020 the Company submitted to the tax authority a request to receive "special preferred technological enterprise" status and to recognize the Company's revenues as "preferred technological income". On June 10, 2020 the Company's request to receive the aforesaid status was approved, and accordingly the taxable technological income of the Company after applying to it a mechanism for allocating R&D expenses in Israel and outside of Israel, as indicated in Encouragement of Capital Investments Regulations – 2017, will be subject to tax of 6% instead of 16%. The deferred tax balances as at December 31, 2024 are according to the tax rates expected to apply to the Company when they are realized, based on the aforesaid tax rates.

(3) Benefits under the Law for the Encouragement of Industry (Taxes)

- A. The Company qualifies as an “Industrial Company” as defined in the Law for the Encouragement of Industry (Taxes) – 1969 and accordingly it is entitled to benefits of which the most significant ones are as follows:
 - a. Higher rates of depreciation.
 - b. An 8-year period of amortization for patents and know-how serving in the development of the enterprise.
 - c. Option for submitting consolidated reports of companies with a single production line.
- B. The company and its consolidated company submit a consolidated report to the tax authorities according to Law for the Encouragement of Industry (Taxes) – 1969. As a result, the companies are entitled, among other things, to offset their losses from the taxable income of other companies, subject to meeting certain conditions.

Due to the change in the holding rate of the parent company by Rafael, making Rafael the sole shareholder of the parent company at a rate of 100%, as described in Note 1.A, from the aforementioned date, the company will no longer be entitled to the benefits described above under the Law for the Encouragement of Capital Investments and the Law for the Encouragement of Industry, and the deferred taxes have been calculated at 23% instead of 16%.

Notes to the Consolidated Financial Statements as at December 31, 2024

Note 23 - Taxes on Income (cont'd)**B. Composition of income tax expense (income)**

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Current tax expenses	4,980	426	-
Deferred tax income	(354)	(559)	104
Tax income in respect of prior years	-	(73)	(103)
	4,626	(206)	1

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 23 - Taxes on Income (cont'd)****C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense included in the statement of comprehensive income**

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Profit before taxes on income as reported in the statements of income	20,023	10,666	4,905
Statutory tax rate	23%	23%	23%
Tax calculated at the statutory tax rate	4,605	2,453	1,128
Tax in respect of non-deductible expenses (exempt income), net	(326)	163	63
Preferred enterprise tax benefits	-	-	(776)
Taxes in respect of prior years	-	(73)	(103)
Utilization (creation) of deferred taxes in respect of losses and benefits from prior years for which deferred taxes were not created	10	(1,414)	(144)
Differences due to different tax rate	150	(554)	-
Differences for which deferred taxes were created this year	26	(675)	(72)
Other differences	161	(106)	(95)
Income tax expenses (tax benefit) included in the statements of income	4,626	(206)	1

D. Tax assessments

The Company has tax assessments that are considered final up to and including 2021 (subject to restrictions as prescribed in the law).

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 23 - Taxes on Income (cont'd)****E. Deferred tax assets (liabilities)**

Composition and movement in deferred tax assets (liabilities):

1. Composition:

	December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Carried forward losses	216	1,379	902
Provision for vacation	476	356	74
Provision for doubtful debts	141	142	17
Fixes assets and leases	217	218	68
Intangible assets	(1,386)	(1,908)	(343)
Research and development	2,188	1,145	16
Other	294	119	37
	2,146	1,451	771

2. Movement:

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Balance at beginning of year	1,451	771	867
Changes not recognized in profit or loss	341	121	8
Changes recognized in profit or loss	354	559	(104)
Balance at end of year	2,146	1,451	771

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 24 - Related Parties****A. Parent companies and subsidiary**

- The Group's shareholders are Rafael Advanced Defense Systems Ltd. and Aeronautics Ltd. in equal parts (see Note 1.A). The Company conducts business with its shareholders in the ordinary course of business.

B. Balances with related parties

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Current assets		
Trade receivables	15,012	20,175
Accrued income from work in progress	43,767	45,601
Current liabilities		
Credit from others	-	11,028
Trade payables	8,168	2,137
Other payables	2,528	-

C. Transactions with related parties

	Year ended December 31		
	2024	2023	2022
	\$ thousands	\$ thousands	\$ thousands
Revenue from sales and work performed	87,353	61,071	46,343
Cost of sales and work performed	17,785	7,008	14,020
Maintenance of vehicles	305	250	249
Selling and marketing	179	258	211
General and administrative expenses	30	-	-
Financing expenses	546	370	128

- See Note 8.B above for information regarding agreements the Company and its investee, N. Yamin Partnership, signed with their related party.
- Until December 31, 2022 the Company presented and disclosed transactions with related parties when the related party acted as a principal in the transaction and not as an agent for a different party. As at December 31, 2023, further to the accounting policy required by the ultimate parent company (Rafael), the disclosure was expanded to all the related party transactions, including when the related party does not act as a principal, and the comparative data was restated in order to present the data from prior years consistently with the data of the current year.

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 25 - Leases****A. Leases in which the Company is the lessee**

The Group applies IFRS 16, *Leases*, as from January 1, 2019. The Group has lease agreements with respect to buildings and vehicles.

Information regarding material lease agreements

1. The Group leases vehicles for three-year periods from a leasing company and from time to time changes the number of leased vehicles according to its current needs. The leased vehicles are identified by means of license numbers and the vehicle's registration, with the leasing company not being able to switch vehicles, other than in cases of deficiencies and supplier warranty. The leased vehicles are used by the Group's headquarter staff, marketing and sales persons and other employees whose employment agreements include an obligation of the Group to put a vehicle at their disposal. Since as aforesaid the employees are those who benefit from the use of the vehicles ("benefit vehicles") and they are entitled to demand to be paid salary instead of the benefit vehicle, and the tests for existence of a sublease are met, the Group classified the subleases as finance leases. The agreements with the leasing companies do not contain extension and/or termination options that the Group is reasonably certain to exercise.

2. The Group leases buildings. See Note 14.B for more details.

3. Right-of-use asset**(a) Composition**

	Buildings	Vehicles	Total
	\$ thousands	\$ thousands	\$ thousands
Cost of assets:			
Balance as at January 1, 2023	7,389	1,159	8,548
Additions	2,174	998	3,172
Disposals, net	(167)	(81)	(248)
Depreciation on right-of-use assets	(2,300)	(859)	(3,159)
Balance as at December 31, 2023	7,096	1,217	8,313
Additions	54	1,489	1,543
Disposals, net	(2,659)	(64)	(2,723)
Depreciation on right-of-use assets	(1,933)	(970)	(2,903)
Balance as at December 31, 2024	2,558	1,672	4,230

Notes to the Consolidated Financial Statements as at December 31, 2024**Note 25 - Leases (cont'd)****A. Leases in which the Company is the lessee (cont'd)****4. Lease liability****Maturity analysis of the Group's lease liabilities**

	December 31	
	2024	2023
	\$ thousands	\$ thousands
Less than one year	1,392	2,427
Between one and five years	3,124	7,073
Total	4,516	9,500
Current maturities of lease liability	1,392	2,427
Long-term lease liabilities	3,125	7,073

Note 26 - Long-Term Loans from Banks**A. Composition:**

	<u>Linkage basis</u>	<u>2024</u>	<u>2023</u>
		<u>\$ thousands</u>	<u>\$ thousands</u>
Loans from banks:			
Long-term loans from bank	Dollar	6,246	6,847
Long-term loans from bank	NIS	-	5,520
Current maturities of long-term loans from bank	NIS	-	(435)
Current maturities of long-term loans from bank	Dollar	(586)	(586)
		5,660	11,346

B. Additional information

On June 28, 2021 the Company took out a bank loan in the amount of \$ 8,200 thousand bearing variable interest of 3.2% that is linked to the Libor rate. As a result of the banking system no longer using the Libor rate, the interest base was converted into term SOFR. The loan is payable in 28 equal installments of principal and interest until June 28, 2028. In the reporting year the Company repaid loans (principal and interest) in the amount of NIS 1.1 million. For information regarding the financial covenants that apply to the Company with respect to the aforesaid loans, see Note 11 with respect to short-term borrowings from banks.