



Bet Shemesh Engines Holdings (1997) Ltd.

Periodic Report for the Year 2025

Disclaimer

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This translation is provided for informational purposes only and does not replace or constitute a substitute for a full review of the original Hebrew document.

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Bet Shemesh Engines Holdings (1997) Ltd.

Chapter A – Description of the Company’s Business and Operations

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Part A - General

1. General

- 1.1. Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the “**Company**”) was established and incorporated in Israel, under the Companies Law, 5759-1999 (hereinafter: the “**Companies Law**”), in 1997 as a private company limited by shares, and shortly thereafter issued shares to the public and became a public company, as this term is defined in the Companies Law.
- 1.2. The description of the Company's business and operations, carried out primarily through its subsidiary, Bet Shemesh Engines Ltd. (hereinafter: “**BSEL**”), and its subsidiaries (hereinafter together: the “**Group**”), in two main areas of activity: (a) the engine parts manufacturing activity, and (b) the engines activity, as detailed in this chapter, is presented in this report for a period of three years (i.e., 2023, 2024 and 2025).
- 1.3. For the purposes of this report, the Company has received an exemption certificate pursuant to Section 19(a)(2) of the Securities Law, with respect to details, the disclosure of which may harm state security.

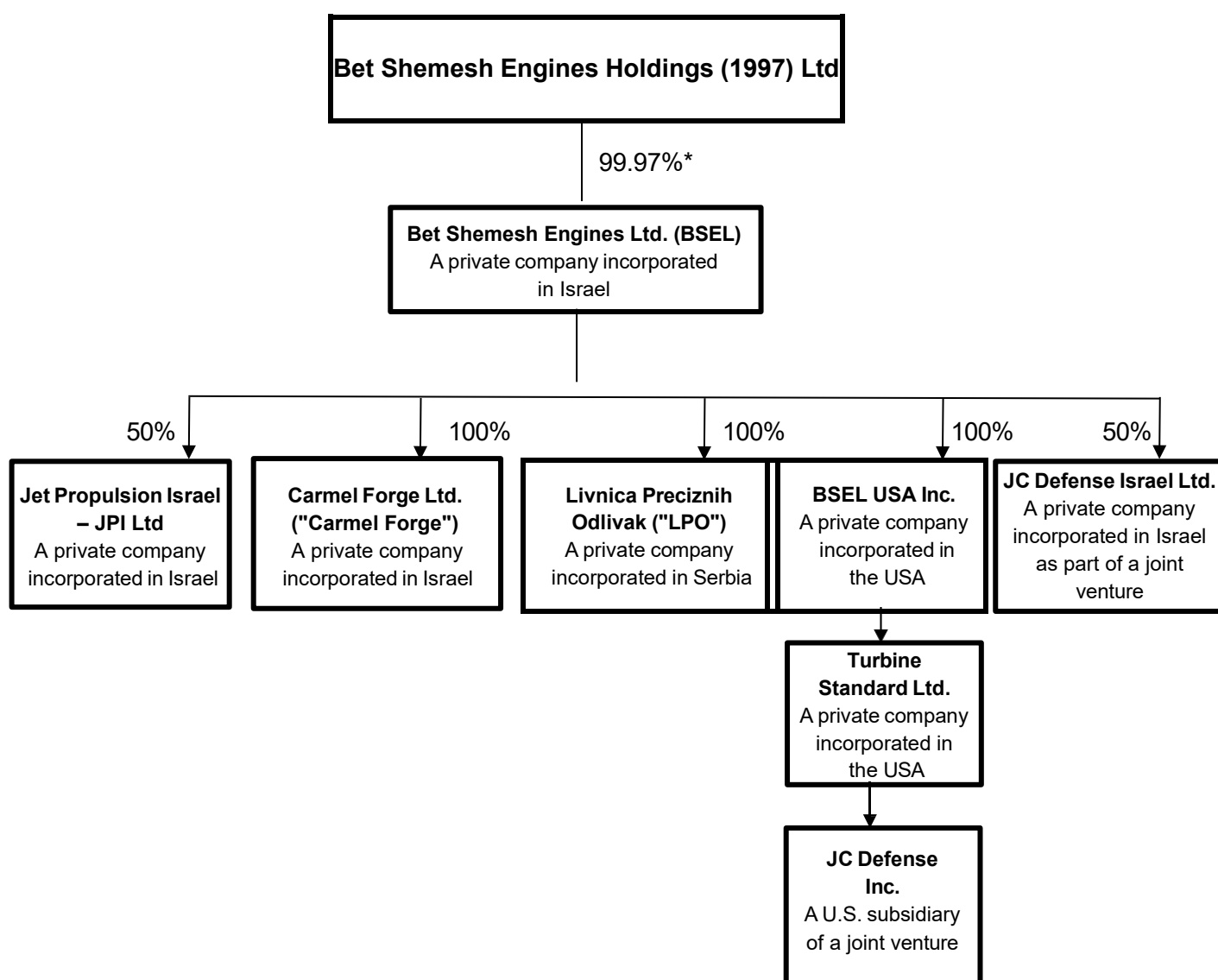
For this periodic report, the consolidated financial statements of the Company as of December 31, 2025 (hereinafter: the “Financial Statements”) are attached.

Part B – Description of the General Development of the Company's Business

2. The Corporation's Activities and Description of the Development of its Business

- 2.1. The principal business and manufacturing activities of the Company are carried out through BSEL and its subsidiaries.
BSEL is held by the Company at a rate of approximately 99.97%.
- 2.2. The Group operates across 5 different manufacturing sites comprising 9 facilities, of which 4 are located at the BSEL site in Bet Shemesh, one additional facility is located at the Carmel Forge site in Tirat Carmel, 2 facilities are located at LPO in Serbia, and 2 additional sites in the United States – Turbine Standard and JC Defense. As of December 31, 2025, the Group employs approximately 1,383 employees. With respect to the activities of the companies in the United States, see Section 9.2 below.
- 2.3. The services and products provided by the Group are intended for the civil aviation market and the military aviation market. As of the date of this report, approximately 66% of BSEL's sales are to the civil market, and the remainder to the military market.

2.4. Below is a chart of the shareholding structure of the companies operating within the Group:



* The remaining holdings (at a negligible rate of approximately 0.03%) are held by an unlimited private company named Keren Yosef Shidlovsky Ltd., which is not involved in practice in the management of BSEL.

Subsidiaries (directly and indirectly–)

- (A) BSEL – an Israeli company established in 1968, with diversified manufacturing operations in two main areas of activity: the engine parts manufacturing activity and the engines activity.
- (B) BSEL USA Inc. – a subsidiary established in the United States for the purpose of expanding MRO activities.
- (C) LPO – a subsidiary in Serbia specializing in precision castings and the manufacture of critical components for jet engines, such as blades, burners and turbine parts. The company has been operating since 1978 and operates advanced casting and processing facilities.
- (D) Carmel Forge – an Israeli company established in 1961, specializing in the manufacture of advanced metal forgings for jet engines. The company mainly produces components for some of the world's largest jet engine manufacturers and is considered a high-quality and leading supplier in its field.

- (E) Jet Propulsion Israel – JPI Ltd. – established in 2021, a jointly owned company with Rafael Advanced Defense Systems Ltd. As of the date of this report, the company has no business activity. The company was established for the purpose of marketing, sales, development, design, manufacturing, overhaul and maintenance of jet engines, and the development of relevant know-how relating to jet engines.
- (F) Turbine Standard Ltd. – a subsidiary in the United States, specializing in maintenance and overhaul of various types of turbine engines. See Section 21.4 below.
- (G) JC Defense – joint venture companies: JetCat Defense Inc. operates in the United States for the supply of small engines to customers in the U.S. military market. JetCat Defense Israel Ltd. operates in Israel for the supply of small engines. See Section 21.5 below.

2.5. In 2016, FIMI Fund¹ (hereinafter: “**FIMI**” or the “**Controlling Shareholder**”) acquired control of the Company.

3. **Areas of Activity:** The business activity of the Group, focused on the field of jet propulsion as a one-stop shop, primarily for aviation, is divided into two sub-areas of activity:
- A. **Engine Parts Manufacturing Activity** – within this area of activity, the Group is engaged in the manufacture of parts for jet engines, including the production of precision castings, machining of metal parts for jet engines, and the manufacture of forgings. This activity is carried out primarily by BSEL, as well as by its subsidiaries wholly owned (100%) by BSEL – Carmel Forge and LPO. Most of the sales in this area are directed to the civil market.
 - B. **Engines Activity** – within this area of activity, the Group is engaged in the overhaul and maintenance of engines and engine assemblies, trading in engines, assemblies and parts, and the engineering, development and manufacture of small jet engines, primarily expendable. Most of the sales in this area are directed to the military market.

For further details regarding the areas of activity, see Sections 8 and 9 below. The Group’s areas of activity are highly integrated and involve close interdependencies.

4. Investments in the Corporation’s Capital and Transactions in its Shares

For details regarding transactions in the Company’s shares carried out by the Controlling Shareholder, see Section 2.5 above.

On December 29, 2025, the Company’s Board of Directors approved a capital raising in the amount of approximately NIS 200 million (intended to support growth plans, investments and acquisitions) by way of a private placement to institutional entities, under which 296,300 new ordinary shares of the Company were issued at a price of NIS 675 per share. The allocated shares are equal in their rights to the existing ordinary shares of the Company in all respects and constitute approximately 3% of the Company’s issued and paid-up share capital and voting rights, and approximately 3% on a fully diluted basis. For additional details, see the Company’s immediate report dated December 30, 2025 (Reference No.: 2025-01-104740).

Pursuant to the Company’s articles of association, as long as the Company is subject to the Order for the Regulation of Security in Public Bodies (Definition of Defense Establishment Enterprises and Enterprises Manufacturing Products for the Defense Establishment) (Amendment), 5779-2019 (hereinafter: the “Order”), control of the Company shall not be transferred, and no person shall hold means of control in the Company at a rate of 10% or more (hereinafter: an “Effective Interested Party”) without obtaining the prior written approval of the

¹ FIMI Opportunity V, L.P, FIMI Israel Opportunity 5 Limited Partnership, FIMI Opportunity 6, L.P and FIMI Israel Opportunity 6 Limited Partnership, through their general partners FIMI 5 2012 Ltd. and FIMI 6 2016 Ltd.

Ministry of Defense (hereinafter: the “Ministry Approval”). For additional details, see Article 12A of the Company’s articles of association.

5. Dividend Distribution

The Company has a dividend policy, according to which, subject to the discretion of the Board of Directors, the Company shall distribute at least 30% of the net profit attributable to the shareholders of the Company, in accordance with the Company’s consolidated quarterly and/or annual financial statements (excluding profits arising from asset revaluation). The distribution of dividends shall be subject, inter alia, to the provisions of law regarding distributions (the profit test and the solvency test), as well as to the Company’s financing needs, cash flow, compliance with financial covenants, the Company’s business plans, including the examination of growth opportunities available to the Company and its needs, etc., all in accordance with the discretion of the Board of Directors at the time the distribution is considered. It is clarified that, as stated above, the Company’s Board of Directors may decide to distribute dividends at rates different from those stated above, or not to distribute dividends at all.

Below are details regarding dividends declared and distributed by the Company in the years 2023–2025, in accordance with the dividend distribution policy:

Date of Resolution	Reporting Date	Amount (NIS thousands)	Distribution Date	Reference
28/08/2023	06/09/2023	180,000	12/09/2023	2023-01-084367

The balance of profits available for distribution as of December 31, 2025 amounts to USD 174,723 thousand.

For details regarding restrictions on dividend distribution and financial covenants undertaken by BSEL towards banking corporations as part of its existing credit facilities, see Section 17.3 below.

Part C – Additional Information

6. Financial Information Regarding the Group's Areas of Activity

Below are financial data regarding the Group's areas of activity, in thousands of U.S. dollars, for the years 2023, 2024 and 2025:

	Engines Activity			Engine Parts Manufacturing Activity			Consolidation Adjustments			Total		
	2025	2024	2023	2025	2024	2023	2025	2024	2023	2025	2024	2023
Revenues (external)	142,099	97,874	61,344	171,984	161,107	148,343	0	0	0	314,083	258,981	209,687
Inter-segment revenues	908	430	280	12,504	9,169	3,990	(13,412)	(9,599)	(4,270)	0	0	0
Total revenues	143,007	98,304	61,624	184,488	170,276	152,333	(13,412)	(9,599)	(4,270)	314,083	258,981	209,687
Variable costs attributed to activity	59,886	37,761	24,777	88,590	84,625	82,631	0	0	0	148,476	122,386	107,409
Fixed costs attributed to activity	35,260	23,093	17,870	71,374	63,983	61,172	2,745	1,249	(65,135)	109,380	88,325	13,906
Total segment costs to external parties	95,146	60,854	42,647	159,964	148,608	143,803	2,745	1,249	(65,135)	257,855	210,711	121,315
Costs attributed to revenues of another segment	12,504	9,169	3,990	908	430	280	(13,412)	(9,599)	(4,270)	0	0	0
Operating profit attributable to owners	34,567	28,281	14,987	23,616	21,238	8,250	(2,758)	(1,260)	65,116	55,425	48,259	88,353
Operating profit attributable to non-controlling interests	790	0	0	0	0	0	13	11	19	803	11	19
Total operating profit	35,357	28,281	14,987	23,616	21,238	8,250	(2,745)	(1,249)	65,135	56,228	48,270	88,372
Total assets	168,050	79,941	50,921	260,590	213,728	208,716	38,553	33,159	29,301	467,193	326,828	288,938
Total liabilities	83,343	39,268	25,446	44,193	39,585	37,479	40,957	54,650	71,694	168,492	133,502	134,618

* The Group companies do not maintain a dedicated costing system that distinguishes between fixed and variable costs. The above classification has been made solely for the purposes of this report. Variable costs are costs over which the companies have flexibility in management and control in the short term, and their impact is on direct output, whereas fixed costs are not flexible in the short term and do not directly affect output.

In 2025, the Company's fixed costs increased by approximately USD 19.6 million compared to the corresponding period last year. This increase is attributable to:

1. Supporting the growth in the Company's activity (including labor costs in the amount of approximately USD 15.2 million).
2. The impact of the USD exchange rate in approximately USD 2.5 million.
3. Expenses attributed to subsidiary TS, which was consolidated for the first time (see Section 21.4), in the amount of approximately USD 6.7 million, of which approximately USD 2.5 million relate to labor costs.

An increase of approximately USD 29.9 million in variable costs of the engines segment is attributed to the increase in the scope of activity, of which USD 14.2 million are attributed to subsidiary TS.

An increase of approximately USD 88.1 million in the asset balance of the engines segment is mainly attributable to an increase in inventory balances of approximately USD 30.6 million, intangible assets resulting from the acquisition of TS in the amount of approximately USD 24.1 million, property, plant and equipment in the amount of approximately USD 13.2 million, and trade receivables in the amount of approximately USD 12.7 million. Of this, assets of TS consolidated for the first time amount to approximately USD 28.8 million.

An increase of USD 44.1 million in the liabilities balance of the engine's activity is attributable to an increase in advances from customers of approximately USD 18.1 million, a PUT option in the amount of approximately USD 10.7 million, and an increase in trade payables and accrued expenses of approximately USD 7.6 million. Of this, liabilities of TS consolidated for the first time amount to approximately USD 7.5 million. An increase of approximately USD 46.9 million in the asset balance of the engine parts manufacturing activity is mainly attributable to an increase in trade receivables of approximately USD 26.1 million and inventory balances of approximately USD 15.6 million.

For an explanation of developments during the year as reflected in the financial data, see the Board of Directors' report as of December 31, 2025, included in Chapter B of this periodic report (hereinafter: the "Board of Directors' Report").

7. Financial Information Regarding the Group's Areas of Activity

- 7.1. The Group operates in the civil and military aviation markets for customers in Israel and abroad (primarily in North America and Western Europe). The Group's principal customers purchasing parts and assemblies are among the largest engine and component manufacturers in the world, and its customers also include governmental customers (military forces, ministries of defense and defense industries in Israel and worldwide) in respect of the engines activity. As of the date of this report, most of the Group's sales in the parts segment are for engine programs in the civil market, and therefore the Group is significantly affected by developments in the civil aviation industry and by changes in the rate of production and sales of civil aircraft. In the engines segment, most sales are directed to the military market, which is materially affected by the security situation in Israel and worldwide.

Changes in the geopolitical situation in Israel and worldwide may affect the Group's sales to its customers, including due to changes in U.S.-Israel relations or due to directives of the U.S. administration to American engine companies regarding the scope of their activity in Israel. The Group's activity in the military aviation sector is influenced by the size and composition of the defense budgets of the State of Israel and Western countries, primarily the United States.

- 7.2. Except for the COVID-19 crisis period during the years 2020–2022, the global aviation market has been characterized by continuous and stable growth, driven, inter alia, by significant growth in global passenger traffic, global economic growth, and the increasing availability and affordability of commercial and business flights worldwide. Growth in the aviation market accordingly affects demand for the products and services provided by the Group, particularly in the engine parts manufacturing segment. This activity accounted for approximately 71% of the Company's revenues in 2023, approximately 62% in 2024 and approximately 55% in 2025, and is mainly directed to the civil market. In addition, most of the Company's activity is export-oriented, and the majority of its sales are to customers outside Israel (approximately 85% in 2023, approximately 74% in 2024 and approximately 78% in 2025).
- 7.3. The volume of production and sales in the various engine programs in which the Company is involved in the parts segment are influenced by the framework agreements it has entered into with its principal customers (see Section 8.4), and may vary according to market conditions, particularly in accordance with aircraft sales by global aircraft manufacturers.
- 7.4. In line with the recovery of the civil aviation market as described above, beginning in the second half of 2022, there has been a recovery in demand for the Company's products for the civil aviation market, as well as an increase in inquiries from existing and new customers to expand production share and enter new projects. In military products within the engines segment, the Company is experiencing an increase in demand, primarily driven by increases in defense budgets in Israel and worldwide as a result of global and local military tensions, and is influenced, inter alia, by the availability of spare parts for military engines and by development and procurement budgets for military applications relevant to jet propulsion.
- 7.5. Due to a significant extension in supply lead times from its suppliers, from raw materials to engine components, and due to increasing supplier requirements for export approvals to Israel, the Company is sometimes required to plan and execute long and complex procurement processes. The Company estimates that the trend of increasing demand will continue, and accordingly the Company's growth will continue; however, due to the supply chain challenges described above, the growth rates in the Company's sales may be more moderate than the potential implied by the increase in industry demand.

- 7.6. Regarding the impact of metal prices, see Sections 8.1(e) and 8.9 below.
- 7.7. Beginning in the first quarter of 2024, there has been a moderate decline in interest rates, which continued throughout the current reporting period and resulted in a decrease in the Company's borrowing interest rates, primarily in short-term loans, by approximately 0.7%–1.0% compared to interest rates at the end of 2024, and by approximately 1.0% on an annual average compared to 2024. For further details, see Section 5.2.6 in Chapter B of the periodic report.
- 7.8. The direct impact of inflation on the Company's operating results is not material. The Company estimates that part of the increases it is experiencing in its inputs are attributable to inflation; however, the Company is unable to quantify the extent of such impact.
- 7.9. Most of the Company's revenues are received in foreign currency (primarily U.S. dollars, which is the Company's functional currency). Since a significant portion of the Company's expenses (primarily wages) is denominated in NIS, changes in the exchange rate of the U.S. dollar against the NIS affects the Company's operating results. The Company estimates the impact of changes in the USD exchange rate on the Group's operating profit at approximately USD 2.0–2.5 million for every NIS 0.10 change in the USD/NIS rate, based on a change relative to the 2025 average. The average effective exchange rate (including the effect of hedging transactions) of the USD against the NIS in 2025 was NIS 3.65, compared to NIS 3.76 in 2024 (an appreciation of 2.9% in the NIS against the USD). The Company enters into hedging transactions to protect operating profit against changes in the USD exchange rate, exercising discretion with respect to scope and timing. The Company continuously acts to reduce exposure, inter alia, through technological improvements and by converting NIS-denominated expenses into USD where possible. In addition, from time to time, the Company may enter into hedging transactions in respect of its business activity, in accordance with the policy of the Company's Board of Directors.

The Company does not enter into hedging transactions against the effect of exchange rate changes on its balance sheet balances, the impact of which is recognized in financing expenses. Regarding the effect of changes in the USD exchange rate on the Company's operating results, see Section 5.2.6 of the Board of Directors' report in this periodic report.

The above information constitutes forward-looking information as defined in the Securities Law, 5728-1968 (hereinafter: the "Securities Law"), and there is no certainty that any forecast, estimate, assessment or other information will materialize, as such information is based on the Company's estimates and experience. Actual results may differ, primarily as a result of geopolitical changes, regulatory changes and various economic factors.

For details regarding the Group's liquidity and sources of financing, see Section 5 of the Board of Directors' report.

For additional details regarding reportable credit, sources of financing, including financial covenants, see Section 17 below.

7.10. **Specific Disclosure Regarding the "Swords of Iron" War**

As of the date of publication of this report, the State of Israel is engaged in a multi-front war (hereinafter: the "**War**"). It should be noted that since the outbreak of the War, the Company has maintained its routine operational and business activities, including ongoing support for the engine maintenance needs of the Air Force, and continuously monitors developments. As with the entire economy, the War has created a number of challenges, arising, inter alia, from the mobilization of employees in various Company departments, which affects, among other things, the progress of development activities and system readiness; adverse geopolitical impacts in certain of the Company's target markets; new regulatory requirements such as export permits imposed by countries, primarily in Western

Europe, where some of the Company's suppliers operate; and more. As of the date of this report, the Company has no indication of a material impact of the War on its business; however, the duration of the War and the extent of its potential future impacts, if any, on the Company's operations and business results cannot be predicted.

The Company continues to maintain routine operations, subject to the limitations described above, and continuously monitors developments, including assessing their implications for the Company's operations.

The Company's above assumptions and estimates regarding the impact of the War on its business constitute forward-looking information, as defined in the Securities Law, for which there is no certainty that such information will materialize, and are based on the Company's estimates, forecasts and assessments based on its experience and on developments in this matter. Actual results may differ, primarily due to the extent and pace of recovery in the industry and the supply chain, developments or realizations that differ from those estimated, geopolitical changes, regulatory changes, and various economic and other factors, which may change and whose realization is uncertain and beyond the Company's control.

7.11. Specific Disclosure Regarding Information Security and Cyber

A cyberattack is an event in which computer systems and/or computer-integrated systems or infrastructures are attacked by an internal or external party, with the intent to cause damage and/or disrupt, interfere with or disable operations, and/or for the purpose of theft of assets or information, and/or for the purpose of gathering commercial intelligence, and/or causing reputational damage, and the like. In addition, the Company may be required to incur costs in order to protect against damage to its information systems, as well as to remedy damages resulting from such incidents if they occur, including, for example, the establishment of internal protection systems, implementation of additional cybersecurity measures, protection against legal proceedings resulting from cyberattacks, payment of compensation and/or taking other remedial actions vis-à-vis third parties.

In recent years in general, and in the recent period in particular, inter alia in light of the COVID-19 crisis and the transition to digital solutions enabling remote work, there has been a significant increase in the intensity, scope and sophistication of cyber threats, as well as in the availability of attack tools to attackers, and the Company estimates that this trend is expected to continue in the future.

As part of its business operations, the Company utilizes various computerized systems, inter alia for the management of production and logistics systems, product testing systems, sales management systems, and financial systems.

The Company continuously acts to reduce the risk of exposure and damage to the aforementioned information systems, inter alia through dedicated systems and protection software, while ensuring their proper updating, implementing information security procedures and periodically refreshing them, conducting risk assessments and formulating appropriate control plans, all with the assistance of relevant experts. During the reporting year, no exceptional cyber incidents occurred. Subsequent to the balance sheet date, the Company entered into a cyber insurance policy with a coverage limit of USD 3 million, subject to agreed terms.

If a cyberattack were to occur, it may have a material impact on the Company's operations and may adversely affect its reputation. Although the Company takes measures to enhance protection against cyber incidents, there is no certainty regarding the effectiveness of the Company's measures in preventing cyberattacks or damage to its information systems. These processes are managed by the Company's Chief Information Officer and a designated

cybersecurity expert employed by the Company, and are overseen by a steering committee headed by the CEO, which convenes periodically to review the Company's status and evolving risks.

The Company's above assumptions and estimates regarding the impact of cyber warfare on the Company, its operations and its reputation constitute forward-looking information, as defined in the Securities Law, for which there is no certainty that such information will materialize, and are based on the Company's estimates, forecasts and assessments based on its experience and developments in this matter. Actual results may differ, primarily due to developments or realizations that differ from those estimated, regulatory changes and various economic and other factors, which may change and whose realization is uncertain and beyond the Company's control.

Part D – Business Description of the Group by Areas of Activity

8. Engine Parts Manufacturing Activity

8.1. General Information on the Area of Activity

A. Structure of the Area of Activity and Changes Therein

In the engine parts manufacturing activity, the Group operates, through BSEL (including its controlled subsidiaries), in the manufacture of metal parts for jet engines using a variety of manufacturing technologies at the Company's plants in Israel and Serbia, including the production of forgings, precision castings and machining.

Most of the parts manufactured were sold during the reporting year תרגסמב engagements between BSEL and the world's largest engine and engine module manufacturers, including: SAFRAN, MTU, GE, PWA, PWC, AVIO and ITP, with which long-term framework agreements have been signed.

This is a conservative area of activity with high barriers to entry. These barriers include compliance with stringent precision and quality requirements, numerous certifications, customer surveys, proof of high and diverse capabilities, stringent standards, training, and more. The aviation engine market is characterized by a limited number of engine manufacturers and parts manufacturers capable of meeting the many requirements of engine manufacturers. Changes in this field take a long time, including engineering and production processes for new parts, adoption of advanced work technologies and use of new raw materials.

B. Restrictions, Legislation, Standards and Special Constraints Applicable to the Area of Activity

In order to manufacture engine parts for jet engine manufacturers and for other customers, the supplier must hold professional certifications received from the customers themselves, confirming that the supplier is capable of and suitable for manufacturing parts for the customer at the quality level required by such customer. The professional certifications required by customers include demonstrated technical capability, investment in special tools and means of production, technical documentation, process development, work planning and trial production, while customers conduct examinations at suppliers' sites in order to review the suppliers' compliance with these requirements (the certification compliance examinations in most special processes were transferred by the material customers to an external company (PRI-NADCAP), which implements the requirements of the international aerospace contractors accreditation program, a change that resulted in more stringent requirements). The Group holds valid certifications from all material customers in this area.

Even after certification has been granted, the supplier must continue to meet the quality requirements and timetables dictated by the customers. Failure to comply with these requirements or with periodic audits may lead to loss of certification.

In addition, the performance of certain stages in the production processes may be subject to customer approval under professional certification.

All the Company's plants comply with ISO-9001-2015 and/or AS-9100D (an international quality standard for the aviation and aerospace industries). During the past year, the Company was certified under ISO27001 and completed its compliance with AS13100, an international standard specifically designated for manufacturers of jet engine parts.

C. Changes in the Scope of Activity in the Area and Its Profitability

Except during the years of the COVID-19 crisis and its material impact on the civil aviation industry, this sector has been characterized by continuous growth, and, as a result, demand in the parts segment has steadily increased. Beginning in 2022, the civil aviation industry started recovering from the effects of the COVID-19 crisis, a recovery that has also been reflected in the increasing growth of the parts segment. Technological changes, which are currently being planned and implemented by the world's leading engine manufacturers (such as GE and PWA) under the development of new engines, include the use of different and complex materials, which require advanced processing methods and the development of numerous processes in order to manufacture products in accordance with customer requirements. A significant portion of the expected orders (Frame Orders) received by the Company in recent years relates to parts also intended for advanced engine programs. For additional details regarding the volume of expected orders, see Section 2 of the Board of Directors' Report in this periodic report. These changes are being embedded in the Group's work processes, such as investments in advanced equipment, recruitment of professional personnel, numerous development processes, new certification processes, a new plant in Bet Shemesh, expansion of the plants at the LPO site in Serbia, and more. The effect of the above processes on the Company's profitability is reflected, on the one hand, in an increase in its investments as part of the Company's preparations for expanding its activity, and, on the other hand, insofar as activity in this area expands in the coming years, it is expected to rely on more efficient production lines. In the Company's assessment, it currently has the means and infrastructure required to meet increasing and intensifying demand, without the need for additional material investments. At the same time, the Company continuously considers making investments aimed at improving efficiency and technological capabilities across the various activities in this area.

The information set forth above regarding the expected changes in the scope of the Company's activity and its profitability, and its ability to meet increasing demand without the need for additional material investments other than those specified in this report, constitutes forward-looking information as defined in the Securities Law, reflecting current estimates and assumptions of the Company's management as of this date, based on various assessments that are inherently uncertain and may not materialize, or may materialize in a materially different manner, in whole or in part, inter alia due to factors beyond the Company's control, including market conditions and the like.

D. Developments in the Markets of the Area of Activity, or Changes in the Characteristics of Its Customers

As noted, demand for high-quality suppliers with the required certifications continues to increase, while barriers to entry in this market, which is characterized by a limited number of companies, remain high. Leading global engine manufacturers (such as GE and PWA) have begun selling new engines with significant technological improvements, including enhanced engine performance capabilities, improved fuel efficiency, noise reduction and more. The customer base in this area has not changed and primarily includes the world's leading engine and engine module manufacturers. Alongside the increase in demand for new engines, the Company estimates that there is also an increase in demand for spare parts for existing engines already in operation, as a result of increased engine maintenance volumes (increased flight hours and delays in the delivery of new engines), as well as quality events such as the recall event of Pratt USA, which requires early replacement of parts. These increased demands are directed along the supply chain to parts manufacturers such as BSEL and have already begun to be reflected in framework agreements signed by the Company during the reporting period (see Section 21 below and Section 6.7 of the Board of Directors' report).

E. Technological Changes That May Materially Affect the Area of Activity

As part of the technological advancements of the world's leading engine manufacturers, use is being made of metal alloys produced using unique technologies that enable improved properties (such as "Powder Metal"), which requires expertise and adaptation of processing technologies, as well as changes in work processes in the area of activity. For details regarding the Group's use of advanced materials, see Section 8.9 below.

The information regarding the expansion of the Company's technological capabilities, development of processes for serial product certification, and expansion of the Company's capabilities and product portfolio for its customers constitutes forward-looking information as defined in the Securities Law, reflecting current estimates and assumptions of the Company's management as of this date, based on various assessments that are inherently uncertain and may not materialize, or may materialize in a materially different manner, in whole or in part, inter alia due to factors beyond the Company's control, including market conditions and the like.

F. Key Success Factors in the Area of Activity

The key success factors in the engine parts manufacturing activity are:

- 1) Compliance with uncompromisingly high control and quality standards, in accordance with aviation standards;
- 2) Proven capability in advanced manufacturing processes using appropriate technologies;
- 3) Skilled, experienced workforce with the appropriate certifications to perform the required activities;
- 4) Compliance with strict delivery schedules;
- 5) High price competitiveness;
- 6) Reputation.

G. Developments in the Supplier Base and Raw Materials for the Area of Activity

Most agreements with customers in the parts segment include compensation mechanisms for changes in the prices of key raw materials. However, such linkage mechanisms do not cover the full extent of the changes (see below), and compensation for such linkage is typically reflected in the subsequent period. The Company's procurement price levels are also affected by changes in other input costs such as auxiliary materials, energy, labor costs, etc., for which the compensation mechanism in agreements with customers is only partial.

With respect to raw material prices for part of the activity, the linkage mechanism with customers is based on fluctuations in the London Metal Exchange (LME). In previous years, there was a clear correlation between price changes in the said index and the prices of raw materials purchased by the Company. In recent years, a gap has emerged, as some raw material suppliers take advantage of high demand levels and maintain high raw material prices despite a decline in LME prices during the period. The impact of increases in the Company's key input costs in 2025 amounted to approximately USD 2.6 million.

The Company operates on several fronts in order to address changing market conditions and improve its business results:

- A. **Customers** – improvement of linkage mechanisms for sales prices to customers, examination of the accuracy of linkages to relevant indices, and creation of more effective linkage mechanisms, within existing framework agreements and within new engagements. The Company has approached and continues to approach customers to update such linkage mechanisms. In some cases, the Company also acts vis-à-vis customers to obtain compensation for the aforementioned increases.
- B. **Procurement and Suppliers** – expansion of the supplier base and modification of agreements with existing suppliers to improve current terms of engagement, including updating linkage mechanisms, while attempting, where possible, to create pricing mechanisms that reflect customer linkages (back-to-back). In addition, the Company works with certain suppliers to establish long-term engagements to fix procurement terms in advance for longer periods.
- C. **Technological Efficiency** – technological improvements in the production process and equipment such that the Company requires less raw materials and/or reduces material waste during the production process.
- D. **Operational Efficiency** – conducting training and professional development for employees in relation to efficient work, developing capabilities of operators to operate multiple machines simultaneously, increasing output to reduce overtime hours, and improving efficiency in relation to shift costs.

H. Substitutes for Products in the Area of Activity and Changes Therein

The manufacture of jet engine parts requires an OEM license from the FAA and EASA, and suppliers are required to hold a license (granted to the engine manufacturer as well as to engine component manufacturers) in order to sell spare parts. Any production of a part or changes to the production process of a part require customer approvals. The purchase and installation of substitute parts without appropriate approvals constitute a criminal offense.

I. Key Barriers to Entry and Exit in the Area of Activity and Changes Therein

1) Barriers to Entry:

- (A) The need to obtain approvals from various regulators (aviation authorities) for the manufacture of engine parts;
- (B) The need to obtain an OEM license for manufacturing the parts;
- (C) Significant investment in quality, engineering, technologies, procurement of machinery and equipment, control and quality assurance;
- (D) Requirement for experience and proven capability from customers, and compliance with customer audits and reviews;

2) Barriers to Exit:

- (A) Existence of long-term framework agreements with customers;
- (B) Investments in human resources and dedicated equipment.

J. Competitive Structure in the Area of Activity and Changes Therein

Regarding the competitive structure and changes therein, see Section 8.7 below.

8.2. Products and Services

The Group is engaged in the manufacture of jet engine parts as follows:

A. Production Process

Following the signing of an agreement for the manufacture of parts, usually under a long-term framework agreement, the Company develops a process and obtains certification in accordance with the specifications provided by the customer ("Build to print"). This process typically takes between one and three years, depending on the complexity of the product. The process includes a production file containing, inter alia, detailed planning of all production stages and required resources (machines, fixtures, manpower), production line planning, design and manufacturing of required tools, auxiliary tools, required raw materials, planned processes, inspection and quality control processes, and more. In most cases, part of the process is financed by the customer, while the portion not directly financed by the customer is recognized as a contract asset amortized over the term of the agreement. Upon completion of customer certification, serial production begins.

Quality control is performed along the production line – items are inspected during production and returned for further processing. Production batch sizes vary depending on the specific item being manufactured. In orders for the manufacture of new items, there is a trial production period until customer approval for purchase of the product is obtained. Typically, a "qualification batch" is required to demonstrate that the new item and its production process meet the customer's requirements and tests. Customer approval includes certification of the production process and is not limited to the final product. Following such certification, the production process may not be changed without customer approval. The average time required to obtain certification for the manufacture of a new item, from the beginning to the completion of the process described above, ranges between one and two years, depending on the type of product. To date, the Group has not incurred material losses due to failure to obtain certification or customer approval.

B. Casting Production Process

The method is based on injecting wax into a mold shaped according to the required part. The wax parts are assembled onto a cluster that consolidates the maximum possible number of parts. The cluster is made of wax coated with ceramic layers, thereby forming a ceramic mold. After the wax is melted and removed from the mold, metal alloys from which the parts are made are cast into the mold. The final stage involves separating the parts from the cluster, cleaning, polishing, and rigorous quality control, including X-ray, FPI, visual inspection and geometric measurements. In addition, the Company performs air casting and vacuum casting. Vacuum casting utilizes a special furnace that enables high-quality casting for turbine blades.

C. Machining Production Process

The Company manufactures critical rotating parts for the hot sections of the engine, such as turbine and compressor disks, blades, nozzles, splitters, shafts and compressor casings. The Production Planning and Control unit (PPC) is responsible for managing the logistics of the production process. The Company does not anticipate material changes in the Group's share in its principal markets with respect to its principal products and services and their mix, except for the changes referred to in Section 8.1 above and Section 8.3 below regarding new products of the Group.

D. Forging Production Process

Production is carried out through a thermo-mechanical process that imparts to the part both its shape and its mechanical and metallurgical properties. The process begins with raw material in the form of round bars made of various alloys and diameters, purchased solely from approved suppliers in the aviation sector and certified by the relevant customer. After the bars are cut to the required length, the cut bar is heated and then hot-forged in presses or ring-rolled on a dedicated machine. The Group manufactures critical rotating parts and static parts for the cold and hot sections of the engine.

8.3. New Products

As stated, the growth engine for new products in the parts segment is derived, inter alia, from the Company's reputation with respect to quality and compliance with delivery schedules and is reflected in the framework agreements signed with its principal customers; see Section 2 of the Board of Directors' Report included in Chapter B of this periodic report. Some of the new parts under these agreements require investment in increasing production capacity, new machines, processing of new raw materials, process development and more. See also Section 8.10 below.

The Company continues to work on the further development and certification of additional new items as a result of the framework agreements to which it is a party, including additional new agreements and expansion of existing agreements.

8.4. **Customers**

- A. Engagements in this area of activity are carried out primarily with recurring customers, with whom long-term business relationships exist, based mainly on multi-year framework agreements (hereinafter in this section: the “**Framework Agreements**”), which are the customary type of agreements used in the aviation industry in this area of activity. The Group’s customers in this area of activity include the world’s leading jet engine and engine module manufacturers, the vast majority of whom are in North America and Western Europe.
- B. Framework Agreements to which the Group is a party do not obligate its customers to place specific orders; rather, they generally define prices (per product or per labor hour), the terms of the agreement, and other general terms (linkage mechanism, warranty, liquidated damages, indemnification, etc.). In addition, some agreements include a “Market Share” condition, pursuant to which, even though there is no assurance as to the volume of orders the Group will receive from the customer, the customer undertakes to order from the Company a volume of purchases according to the specific market share defined with the Company for the parts relevant to its Framework Agreement with the Group. The agreements do not include a minimum quantity commitment for parts; rather, in most cases, the parties agree on a non-binding estimate (annual forecast) of the customer’s needs during the term of the agreement. Based on these estimates, which are updated by the customer from time to time, the Company updates a multi-year database and accordingly prepares supply forecasts, infrastructure and raw materials with long lead times.
- C. In some cases, the Framework Agreements require the Group to hold a certain inventory in accordance with future demand, including with respect to engine parts subject to obsolescence, and also include a quality control plan under which the Group is responsible for supplying replacement products for defective products, including repair of the products, their disassembly, reassembly and all related costs. The agreement generally requires the Group to carry out optimization processes in order to improve production and delivery times, costs, product prices, product quality and the production process, and it is usually agreed that both parties to the agreement will bear the costs of the plan and share the gains arising from such improvements. Specific work orders for services or products are received against the Framework Agreements.
- D. In the Company’s assessment, the cancellation or reduction of specific orders relative to forecast orders under the Framework Agreements may materially affect the Group’s results, both through reduced revenues and reduced profitability.
- E. Below are the Group’s customers for whom the Group’s revenues attributable thereto exceed 10%:

Customer	2025		2024		2023	
	Amount (USD millions)	Revenue Share	Amount (USD millions)	Revenue Share	Amount (USD millions)	Revenue Share
Customer A	52.1	16.6%	42.8	16.5%	42.5	20.3%
Customer B	32.2	10.3%	32.0	12.4%	28.0	13.3%

- F. In this area of activity, the Company is dependent on its principal customers as stated above.

8.5. **Marketing and Distribution**

The marketing process is carried out by internal Group personnel through direct outreach to customers for the manufacture of engine parts. In addition, customers approach the Group,

in parallel with competitors, to obtain quotations for specific works (RFQ). The request includes the customer's requirements, quantities, and an estimated delivery schedule for the product or service.

The Group submits its quotation, and if the customer is interested, an agreement is carried out following negotiations.

8.6. **Order Backlog (Firm Orders)**

- A. In most cases, the orders included in the backlog consist of orders placed by recurring customers with whom long-term business relationships exist and with whom the Company has a deep understanding of their needs. As customary in the industry, the "order backlog" is based on a multi-year database that is periodically updated by the customer in cooperation with the Company, based on which the Company fulfills orders and prepares to execute orders not yet delivered. It should be emphasized that, from a legal perspective, the Company's customers may postpone or cancel orders, except for orders with near delivery dates, which are commonly treated as being under a "freeze period" (typically between 60–120 days prior to delivery). In practice and historically, customers have fulfilled most of their commitments under such backlog and generally prefer to postpone orders rather than cancel them². Although the backlog is based on a database that is not legally binding (except for orders in the freeze period), in the Company's industry it is customary to treat such orders as effectively binding, as both parties have a clear interest in acting accordingly. Accordingly, based on this database and the Company's experience, while applying safety factors, the Company derives the orders included in the backlog and treats them as orders expected to be realized.
- B. Below are details regarding the distribution of the order backlog in the engine parts manufacturing activity as of December 31, 2025 (USD million):

	31.12.2025
2026	201
2027	160
2028 and thereafter	309
Total	670

In the Company's assessment, the quarterly distribution is expected to reflect a moderate increase in sales volumes from one quarter to the next; however, variability in order timing may occur, including possible postponements.

In addition, certainty regarding the realization of sales between quarters depends on additional factors such as production capacity availability and customer preferences. The backlog in the manufacturing segment is based on specific orders received from customers.

The backlog mix is characterized by several main product types, including rotating parts for hot sections of the engine such as turbine and compressor disks, blades, forgings, nozzles, splitters, exhaust pipes, shafts, and compressor casings.

² This is, inter alia, in view of the customers' obligation under the "Market Share" provision. For additional details, see Section 8.4 above.

- C. Below is the total order backlog of the Group across its two segments, as referred to in this section (engine parts manufacturing activity) and in Section 9.5 below (engine activity):

	31.12.2025
2026	307
2027	270
2028 and thereafter	364
Total	941

- D. In addition to the orders included in the backlog as described above, the Company at times performs an assessment of customer needs during the engagement period, notwithstanding that there is no assurance as to the volume of orders that BSEL will receive from the customer. Based on these assessments, the Group prepares supply forecasts and places orders for raw materials with long lead time.
- E. For details regarding the development of the Group's expected orders (Frame Orders), see Section 2 of the Board of Directors' Report included in Chapter B of this periodic report.

The above information regarding the order backlog constitutes forward-looking information as defined in the Securities Law. There is no certainty that the Company will achieve its aforementioned objectives, and the actual volume of orders may be materially lower due to external factors beyond the Company's control, such as a material business change at the Company's customers, security events, macroeconomic changes, and changes in the aviation sector.

8.7. Competition

The Group's activity in the parts manufacturing segment is directed toward new engine programs and the aftermarket for existing engines. In the field of engine parts manufacturing, capabilities in Israel are relatively limited, and competition is primarily with global companies as well as the engine manufacturers themselves, including the Company's customers. Although the Company has a significant presence in certain items within advanced engine programs, the Group's overall share of the global market is negligible, as many companies worldwide operate in similar fields.

In recent years, the Group has faced competition in both pricing and quality from other industrialized regions such as Western Europe, the United States and certain East Asian countries. The Group is also exposed to lower-cost competitors from Eastern Europe, Central America and Asia. In the Company's assessment, its qualitative advantage as a ONE STOP SHOP, encompassing a wide range of manufacturing and engineering capabilities, will assist it in maintaining its position in the market; however, the competitive structure, which is influenced by pricing, may make it more difficult for the Group to expand into new areas where labor costs and indirect inputs that are not direct manufacturing costs carry greater weight in the total cost structure. Competition requires the Group to offer competitive pricing and maintain a high level of operational efficiency (including improvement of work methods, upgrading technological equipment, etc.), as well as to preserve and develop advanced technological capabilities in order to obtain required certifications and meet customer requirements.

8.8. **Production Capacity**

In the manufacturing activity, there are several processes that constitute bottlenecks which may somewhat delay potential growth, such as reliance on limited manpower, as well as on professional, technological and dedicated infrastructure and equipment. The Group acts to reduce these limitations, whether through recruitment and training of skilled personnel, investments in equipment or technological improvements. The Group is not yet operating at full utilization of its production capacity. The Company estimates that the current production capacity based on existing technologies will enable significant growth in the scope of its activity in the coming years (currently estimated at approximately 30% with respect to the parts segment), without the need for additional material investments.

In recent years, the Company has also carried out recruitment processes of skilled and professional manpower through various means in order to support the continued growth of the Company. Due to the shortage of skilled labor in the industry, the Company established in 2018 a professional training center for relevant professions, primarily machining and metalworking, in cooperation with and funded by the Ministry of Labor and the Tzurim Association. The training center was established at the BSEL complex adjacent to the production site, and the Company provided dedicated classrooms and appropriate machinery for trainees in the designated facility. As of the report date, the Company has successfully completed the training of approximately 220 trainees at the training center, dozens of whom have been absorbed into the Company. In addition, the Company initiated, in cooperation with the ORT network, dedicated mechanical engineering technician studies for the Company, intended for the Beit Shemesh population, and upon completion, approximately twenty technicians will be absorbed into the Company.

The above information regarding production capacity, the significant growth in the scope of activity and the estimated range constitutes forward-looking information as defined in the Securities Law, and the actual impact may differ materially due to external factors beyond the Company's control.

8.9. **Raw Materials and Suppliers**

- A. The raw materials used by the Group in the parts manufacturing activity are alloys composed of various metals such as nickel, chromium, cobalt, titanium, hafnium, powder metal, and others.
- B. Some of the forgings that constitute raw material for machining are produced by Carmel Forge. Some of the static engine components are composed of cast parts produced in the casting division and transferred for further processing in the production division, such as engine nozzles, splitters and exhaust housing, and some are manufactured from rolled and welded sheet metal made of superalloys, such as combustion chambers and flame holders.
- C. A material portion of the raw materials used by the Company (forgings and other raw materials) is supplied by the customer, purchased from the customer and/or from suppliers approved by the customer and/or designated and/or exclusive and/or determined by the customer at a price approved by the customer and priced accordingly to the sales price to the customer. A change in raw material prices will generally result in a corresponding change in the sales price or compensation for increases in raw material prices retrospectively.

With respect to changes in raw material prices, their impact on the Company and the Company's ability to make price adjustments to customers, see Section 8.1 subsection (z) above.

- D. The Group has several alternative suppliers for the procurement of raw materials,

although in practice they are supplied by a limited number of suppliers worldwide. At times, a temporary shortage of these alloys may occur, resulting in an increase in raw material prices or delays in supply to the Group. The Company estimates that it is not dependent on any specific supplier for which no substitute can be found; however, such substitution involves certification costs and may take a considerable period of time. In addition, during periods of high demand for these raw materials, delays in their supply may occur, which in turn may cause delays in the delivery of products to customers.

The above information regarding raw materials and suppliers, in part, constitutes forward-looking information as defined in the Securities Law, and the impact may be more material due to external factors beyond the Company's control, such as security events, macroeconomic changes, changes in the aviation sector and in raw materials in particular.

8.10. Fixed Assets and Main Facilities Used by BSEL in the Engine Parts Manufacturing Activity

The fixed assets and main facilities used by the Group in the engine parts manufacturing activity include machining equipment, quality testing and measurement equipment, preheating furnaces, vacuum casting and air casting systems, rotary furnaces, presses and ring rolling machines for the production of forgings and rings, robots and X-ray inspection machines.

As part of its preparation for increased demand, the Group significantly expanded its production capabilities. As part of his effort, the Group established an additional production facility at the Company's site in Beit Shemesh, expanded the plant in Serbia, and invested in production equipment and machinery to support the expansion of the Company's activity in the parts segment, both at new and existing sites.

Following the reclassification of the Beit Shemesh area as Development Area A, in 2022 the Company submitted to the Investment Authority an application for an investment plan under the "grant track" in the amount of approximately NIS 86 million for the expansion of its plant in Beit Shemesh during the years 2022–2026. As part of the plan, the Company is eligible to receive a grant of 20% of the approved budget. In June 2024, an approval letter was received for a plan in the amount of approximately NIS 45 million. Cash investments made from the beginning of the plan until the report date amounted to approximately NIS 43.4 million. In order to receive the 20% grant on these investments, at least 24% of the investments must be financed through additional paid-in share capital (share allocation). On February 12, 2025, an allocation was made based on capitalization of retained earnings to share premium in BSEL in the amount of approximately NIS 10.8 million (approximately USD 3.01 million), following Board approval. During 2025, a grant in approximately NIS 1.6 million (approximately USD 0.5 million) was received. After the balance sheet date, an additional amount of approximately NIS 0.4 million (approximately USD 0.1 million) was received.

In 2019, the Serbian authorities approved for the Company's subsidiary in Serbia, LPO, a grant in the amount of approximately EUR 960 thousand, in consideration of the Company's commitment to carry out an investment plan in buildings and equipment in the amount of approximately EUR 9.5 million. In addition, as part of the plan, LPO undertook to increase its workforce by 120 employees. The execution of the plan extended through 2025³. By the end of 2025, LPO had fulfilled all its commitments.

As of the report date, the full amount of the grant as described above has been received.

³ The grant amounts were awarded gradually over the years in accordance with LPO's progress in fulfilling its commitments under the terms of the grant.

9. Engine Activity

9.1. General Information on the Area of Activity

A. Structure of the Area of Activity and Changes Therein

In this area, the Company operates through BSEL and Turbine Standard (see Section 21.4), primarily in the overhaul, maintenance and assembly of jet engines and their components in both the civil and military sectors, as well as in the development, production and marketing of small engines. Most of the activity in this segment is intended for the military market.

Engine overhaul is performed for engines that have accumulated a certain number of flight hours / cycles in accordance with the engine manufacturer's technical manuals or in the event of a technical malfunction. The engine assembly and overhaul activity at the facility handles several engine models for which the Company is certified. The repair / overhaul process varies from engine to engine depending on the nature of the fault. The repair / overhaul process typically takes between 30 and 90 days from receipt of the engine to delivery to the customer.

In addition, the Company is developing and advancing its capabilities in the development and production of small jet engines for unique military applications. This activity is led by a team of engineers who assist the Company in addressing engineering challenges across its various activities and relies on the full utilization of the Company's capabilities in its manufacturing, testing and assembly facilities. The Company is preparing for continued growth in this activity, inter alia, through recruitment of personnel in the relevant disciplines (primarily engineering and production) and the establishment of a new and advanced facility designated for this activity (see also Section 9.9 below).

In February 2025, the Company entered into an agreement to establish a joint venture with the German company Jet Cat (see Section 21.5 below). Following the agreement, two companies were established (in the U.S. and in Israel) under the name JC Defense. The partnership enables expansion of the product portfolio in the small engines activity and provides serial production capabilities at significant volumes and competitive prices for the U.S. military market, leveraging the capabilities of BSEL and TS in Israel. This capability, combined with the Company's presence in the U.S. through TS in the local market, and in a market environment of increasing demand driven by global geopolitical events, constitutes a highly significant growth engine in this activity.

The Company has prepared to realize business opportunities in this area.

B. Restrictions, Legislation, Standards and Special Constraints Applicable to the Area of Activity

Engagement in the engine activity requires a professional certification process for the BSEL facility. The certification and licensing process is conducted both by civil aviation authorities and by manufacturers and customers, who verify and approve that the Company has the capabilities to overhaul, maintain and repair engines and engine components at the required level of quality.

BSEL is certified by the Israeli Air Force for the overhaul and maintenance of the engines detailed in Section 9.1A above, and in addition, the Company holds certifications from civil aviation authorities – the CAAI, FAA and EASA.

The BSEL facility complies with ISO-9001-2015 and AS-9100D (an international quality standard for the aviation and aerospace industries). The Company also complies with ISO27001 relating to information security management.

Export of military products and systems is subject to obtaining export approvals and licenses from the Israeli Ministry of Defense and other authorities. BSEL operates in accordance with export licenses received from time to time from the relevant authorized bodies.

C. Changes in the Scope of Activity and Profitability

Based on global assessments, including those of BSEL's customers, the Company estimates that this market is expected to continue to grow in the coming years, with emphasis on the military market.

In addition to recruiting personnel in relevant disciplines and establishing a new and advanced facility designated for this activity, and as part of the positive developments in this area, the Company has entered into several significant agreements supporting the utilization of business opportunities arising from increasing demand:

1. On November 15, 2024, BSEL, the Company's subsidiary, entered into an agreement to acquire 80% of the shares of a U.S.-based company, Turbine Standard, which operates in the field of repair and maintenance services for jet engines. Expansion of jet engine overhaul and maintenance activity constitutes one of BSEL's strategic growth engines and enables a significant entry into the U.S. market. On March 3, 2025, following the fulfillment of the conditions precedent as specified in the agreement, the transaction was completed. As anticipated by the Company, the agreement has high added value and enables significant synergy between BSEL and the acquired company. In addition, this move strengthens BSEL's presence in North America with an operational base and enables more diverse solutions for customers in terms of operational flexibility and load balancing. The acquisition also constitutes an operational anchor in the United States for future activity in small engines for the U.S. military market, increasing the likelihood of securing future orders in this field. (see Section 9.1A above and Section 21.4 below).

2. On February 26, 2025, the Company entered into an agreement to establish a joint venture with the German company Jet Cat. In the Company's assessment, this engagement may enable significant entry into the U.S. and Israeli markets for the development and production of small engines, with a substantial expansion of the product range in line with market requirements. In addition, in the Company's assessment, the engagement has high added value and will enable significant synergy between BSEL and JetCat and their combined capabilities. (see Section 21.5 below).

3. Extensive activity with the Israeli Air Force As part of the ongoing maintenance of various engines maintained by the Company, because of the increased activity stemming from the "Iron Swords" war.

D. Developments in the Markets of the Area of Activity, or Changes in Customer Characteristics

This market is not characterized by many significant developments. However, entry of a new engine into the market or modification of an existing engine entails requirements for the manufacturer and customers to demonstrate the capabilities and certifications required to support the new engine or such modification. The Group's ability to demonstrate to manufacturers and customers its capability to support these changes enables it to supply the required products to customers.

Changes in demand for the engines for which the Company is certified and/or the entry of competing engines may affect future activity in this area. The Company's ability to win specific engine overhaul projects constitutes a significant factor in the continued growth of this segment.

Significant changes in the security situation may affect the growth of the defense component of the segment. Thus, the Russia–Ukraine war and additional security events have led to increases in defense budgets of countries, which in turn lead to increased demand and growth in the activity of this segment. (See further details in Section 1(c) above).

- 1) Critical Success Factors in the Area of Activity and Changes Therein Compliance with product quality levels in accordance with customer requirements and high work quality standards as determined by airlines, air forces, and aircraft and engine manufacturers, and obtaining the relevant certifications from authorities and customers;
- 2) Meeting strict delivery schedules to customers;
- 3) Availability, competitive pricing and efficient procurement of spare parts and raw materials;
- 4) Financial capacity to finance working capital, primarily for maintaining availability of spare parts inventory at significant volumes;
- 5) Advanced development and production capabilities, at competitive cost, of small jet engines.

E. Changes in the Supplier and Raw Material Structure

Spare parts and raw materials required for engine and component overhaul are procured directly from engine manufacturers or through various spare parts suppliers worldwide. The availability of spare parts and their delivery timing depend on these suppliers, and delays in supply by the suppliers may cause BSEL delays in engine overhaul, difficulty in meeting schedules, and in exceptional cases, may result in the Company being charged penalties for failure to meet delivery targets. The Company engages subcontractors in Israel and abroad for part of its activities. In addition, as noted above, for certain raw materials required for development and production of small engines, there is regulation regarding end-user identification, the procedures and enforcement of which have become more stringent.

F. Substitutes for Products and Changes Therein

Jet engines are characterized by a very high thrust-to-weight ratio and are therefore selected as the preferred propulsion method by aircraft manufacturers.

In the Company's assessment, no technological substitute is expected soon to replace jet propulsion.

The above information constitutes forward-looking information as defined in the Securities Law, based on the Company's assessments and experience. However, there is no certainty that this assessment will materialize, due to external factors beyond the Company's control, such as technological changes that may lead to or contribute to the development of substitutes for jet engines.

G. Barriers to Entry and Exit and Changes Therein

1) Barriers to Entry:

- (A) The need to obtain approvals from various regulators (aviation authorities) for engine overhaul and assembly;
- (B) Availability of skilled manpower with the required certifications for performing engine overhaul and assembly;
- (C) High costs of establishing overhaul and assembly lines;
- (D) Requirement for proven experience and capability (quality assurance), and customer certifications for engine overhaul and assembly, as well as approvals from engine manufacturers for maintenance in the military segment;
- (E) Overhaul and assembly of engines for fighter aircraft and helicopters of foreign air forces depend, inter alia, on the political situation and international relations between countries, such that certain companies and/or foreign air forces and/or defense entities are restricted from working with certain countries;
- (F) Engineering knowledge for development of advanced technologies and production processes;
- (G) Advanced engineering capabilities supporting development and production of small engines;
- (H) Procurement capabilities, equity capital, and availability of raw materials and spare parts.

2) Barriers to Exit:

- (A) Existence of long-term framework agreements with customers;
- (B) Commitments to specific orders by customers;
- (C) Compliance with customer/regulatory requirements;
- (D) Availability of spare parts and raw materials.

E. Structure of Competition and Changes Therein

For details regarding the structure of competition and changes therein, see Section 9.6 below.

9.2. **Products and Services**

Within this area of activity, the Company provides its products (maintenance, overhaul, assembly, upgrade, development and production) of engines and engine components.

A. As of the report date, the Company is certified and operates in this area for overhaul of the following engines:

1) **Pratt & Whitney – F100 (all models):**

These engines are installed in F-15 and F-16 fighter aircraft used by the Israeli Air Force, the U.S. Air Force, and other air forces. BSEL is certified by the engine manufacturer for maintenance and overhaul of these engines, and it is estimated that these aircraft will remain in service in the Israeli Air Force for an additional 15–20 years.

2) **T700 – General Electric (all models):**

These engines are installed in Black Hawk and Apache helicopters. These helicopters are used by the Israeli Air Force, as well as by air forces, armies, navies and police organizations worldwide. The Company estimates they will remain in use for an additional 15–20 years. BSEL is the sole external supplier to the Israeli Air Force for maintenance of T700 engines.

3) **Rolls-Royce Allison 250:**

These engines are installed in light and medium helicopters, manufactured by companies such as Bell, Eurocopters, MD Helicopters, Agusta and others. These helicopters are widely used worldwide, both in the military sector and primarily in the commercial/civil sector. BSEL holds specific certifications for these engines from the relevant authorities.

4) **Pratt & Whitney Canada – PT6:**

These engines are installed in light and medium aircraft, both single-engine and twin-engine. These aircraft are widely used worldwide, both in the military sector and primarily in the commercial/civil sector. Civil uses are mainly for business aviation, light transport and crop-spraying aircraft, while military uses are mainly for training and reconnaissance aircraft. BSEL holds specific certifications for these engines from various authorities, including the CAAI, EASA, FAA, as well as civil aviation authorities from various countries as required. This engine, whose production began approximately fifty years ago, is still manufactured in its various models, and the Company estimates that these engines will remain in civil and military service for the next 30 years.

B. **Turbine Standard**

As stated above, the Company acquired 80% of the shares of Turbine Standard, which is engaged in the overhaul, maintenance and assembly of jet engines, and is certified and operates in this area of activity for the overhaul of the following engines:

- 1) PT6: Similar to the activity already performed by the Company as stated above (see Section 9.2(a)(4)). The Company estimates that the synergy and expansion of activity in the U.S. market, combined with the expertise already existing within the Company, constitute an opportunity for growth in this activity.

- 2) CT7: The civil version of the T700 engine (see Section 9.2(a)(2) above). Due to similarities in certain aspects of maintenance of this engine, the Company also estimates that there is an opportunity for technological and logistical integration to realize the potential inherent in this engine in North America and other global markets.
- 3) TPE331: A veteran engine manufactured by Honeywell, installed in light and medium aircraft intended for light transport and small passenger aircraft.

C. JC Defense

Supply of small engines to customers in the U.S. military market. For further details, see Section 21.5 below.

The above information, including the estimated service periods, constitutes forward-looking information as defined in the Securities Law, based on the Company's assessments, forecasts, market familiarity, and experience in these markets. However, there is no certainty that this assessment will materialize due to external factors beyond the Company's control, such as the global financial situation which may lead to stagnation in the engine overhaul market, and risk factors detailed in Section 27 of this chapter below.

9.3. Customers

- A. Engagements in this area of activity are carried out with recurring customers (over several years) as well as occasional customers. The Group's customers in this segment include military customers such as the Israeli Ministry of Defense, defense industries, air forces and other military bodies of various countries, as well as other civil customers, mainly operators of helicopters and aircraft in Israel and abroad. In some cases, prior to engagement, the Group is required to win a tender in order to enter into the engagement.
- B. In some of the Group's contracts with its customers, the engagements are short-term, project-specific engagements (engine overhaul), while others are carried out through framework agreements under which the Group undertakes to perform defined scopes of work in accordance with schedules, pricing, commercial terms, liability limits and other terms set forth in the agreements.
- C. Some of the Company's agreements with its customers in the engine segment include one-time engagements for specific projects (primarily engine overhaul, supply of engines and engine parts). Accordingly, part of the Company's activity is conducted on an ad-hoc order basis, where the customer has the right to cancel a specific work order in accordance with customary provisions in such agreements, such as in cases of breach of agreement by the Company (e.g., failure to meet agreed standards); however, typically the customer must compensate the Company in such cases if the Company has already commenced work.
- D. Below are the segment customers whose share of the Group's revenues exceeds 10%:

Customer	2025		2024		2023	
	Amount (USD millions)	Revenue Share	Amount (USD millions)	Revenue Share	Amount (USD millions)	Revenue Share
Customer C	39.4	12.5%	44.9	17.4%	24.5	11.7%

With respect to the engagement with Customer C, this includes several engagements for different projects, some short-term (a few years) which are renewed, and some long-term framework agreements ranging between 3 to 6 years. As part of these engagements, the Group undertakes to perform defined scopes of work in accordance with schedules, prices (determined specifically per defined scopes of work), commercial terms, liability limits and similar provisions.

The Company received an exemption pursuant to Section 19(a)(2) of the Securities Law from disclosure regarding the identity of Customer C (to the extent disclosure of the customer's identity as aforesaid is required) and also included alternative disclosure in the report as a result of the omission of disclosure with respect to the information covered by the said exemption. In addition, the Company received a confidentiality certificate, all as required pursuant to Section 19(a)(2) of the Law. Pursuant to Section 36C(b) of the Law, court approval is required for such exemption from disclosure in publications under the Law and the regulations promulgated thereunder, including periodic and immediate reports. On January 14, 2024, court approval was received, pursuant to Section 36C(b) of the Law, regarding exemption from disclosure of details liable to harm state security in publications under the Law and the regulations promulgated thereunder, including immediate and periodic reports.

9.4. **Marketing and Distribution**

- A. Marketing activities in Israel are carried out through relevant internal Company personnel, primarily professionals from various disciplines.
- B. Marketing activities abroad are carried out jointly by the marketing and sales department, internal professional teams, and local agents of the Group in various countries.
- C. The Group also participates in international tenders and negotiations, including government-to-government (G2G) agreements, in accordance with customer practices.
- D. Generally, the Group does not grant exclusive agreements to agents and representatives; however, in certain cases it grants limited exclusive representation in specific countries for a defined period.

The information set forth above constitutes forward-looking information as defined in the Securities Law, reflecting current assessments and assumptions of the Company's management as of this date, based on various estimates that are inherently uncertain and may not materialize, or may materialize in a materially different manner, in whole or in part, inter alia due to factors beyond the Company's control, including factors under the control of customers and/or market conditions and the like.

9.5. **Order Backlog (Firm Orders)**

- 9.5.1. For details regarding orders in the Company's area of activity, see Section 8.6 above.
- 9.5.2. Below are details regarding the distribution of the order backlog in this activity as of December 31, 2025 (in millions of U.S. dollars):

	31.12.2025
2026	106
2027	110
2028 and thereafter	55
Total	271

The certainty regarding the precise timing of the realization of sales between quarters depends on several factors, such as the availability of production means and customer preferences, which may affect such timing. Therefore, it is not possible to forecast the distribution of revenues in 2026 across the quarters.

- 9.5.3. For details regarding the Group's total order backlog across its two segments, see Section 8.6(c) above.
- 9.5.4. In addition to the orders referred to above, some of the Group's agreements with its customers in the engine activity include a non-binding estimate (annual forecast) of the customer's needs throughout the term of the engagement, but such estimate does not constitute a guarantee as to the volume of orders that BSEL will receive from the customer. For details regarding the Group's expected orders (Frame Orders), see Section 2 of the Board of Directors' Report in this periodic report.

The information regarding the order backlog and the expected revenues therefrom constitutes forward-looking information as defined in the Securities Law, reflecting current assessments and assumptions of the Company's management as of this date, based on various estimates that are inherently uncertain and may not materialize, or may materialize in a materially different manner, in whole or in part, inter alia due to factors beyond the Company's control, including factors under the customers' control and/or market conditions and the like.

9.6. Competition

The competition faced by the Group in the said area of activity is divided as follows:

A. Competition in the Israeli Market – Military

In the activity of overhaul and maintenance of engines for the Israeli Air Force, the Group's principal competitors are the independent maintenance units of the Israeli Air Force, foreign companies, as well as manufacturers of small jet engines worldwide.

The trend, which has strengthened significantly over the past two years of preferring "blue-and-white" development and production by the Israeli Ministry of Defense, subject to performance and competitive pricing, constitutes an advantage for the Company in this market.

Changes in the defense budget in NIS, changes in the total volume of work of the Israeli Air Force, and civilianization / privatization of various systems affect competition in this field.

B. Competition in the Israeli Market – Civil / Commercial

In the activity of civil / commercial engine overhaul in Israel, the Group's principal competitors are the engine manufacturers themselves and engine overhaul facilities worldwide.

C. Competition in the Global Market – Military

In the activity of military engine overhaul worldwide (GE-T700 and PW-F100), the Group's principal competitors are the engine manufacturers themselves, overhaul and maintenance units of the U.S. Army, overhaul and maintenance units of foreign militaries, and engine overhaul facilities worldwide that have been certified for these engines. The Company is unable to assess the Group's share in this market.

In the activity of jet propulsion for small engines, there are a limited number of competitors worldwide, possessing advanced engineering capabilities with an orientation toward military platforms.

D. Competition in the Global Market – Civil / Commercial

There are many companies worldwide operating in this field, including the engine manufacturers themselves, companies certified by engine manufacturers, engine maintenance and overhaul units of airlines, and independent companies. Prices in this field worldwide are determined through tenders and commercial negotiations and are not subject to regulation. In the Company's assessment, the Group's share in the global market in this field is negligible. The Company is unable to assess its market share in this area of activity.

9.7. **Production Capacity**

- A. Production capacity in the engine segment is specific to each engine type. Potential production capacity may be increased as needed and depends on three principal factors: availability of manpower, availability of spare parts, and process bottlenecks.
- B. The Company estimates that it is making optimal use of its production capacity under the current working format, but not of its maximum production capacity, which includes the possibility of additional shifts and the addition of manpower during peak periods, and that it is capable of significantly increasing the scope of its activity.
- C. During the reporting period, the Company commenced construction of a dedicated plant to increase the production capacity of the engine activity, as part of its preparation for growth in this activity due to increasing demand. The Company estimates that the new plant will commence operations during the second quarter of 2026. The Company is establishing at TS production lines (at this stage, assembly and test cells) for small engines intended for the U.S. military market, and the commencement of their operation is expected during 2026, with an expectation of receiving orders from customers in this market (see also Note 33 to the consolidated financial statements as of December 31, 2025 and Section 21 below, regarding receipt of a first order for serial production of small engines for an American customer).
- D. Following the acquisition of 80% of the shares of Turbine Standard, and the operational synergy arising from this transaction, the production capacity of part of the activity in this area is expected to grow accordingly.

9.8. **Raw Materials and Suppliers**

The principal procurement in the military and civil engine activity consists of original and alternative spare parts, assemblies, complete engines, and various materials used for engine maintenance, as detailed above. The Company is dependent on the availability of spare parts supplied by the engine manufacturers (the OEMs) and parallel manufacturers. In addition, the Company procures raw materials to produce small engines.

9.9. **Fixed Assets and Main Facilities Used by the Group in the Engine Activity**

The Group uses equipment and machinery, some of which is relatively new and some of which has been in use for a long period. In view of the high level of maintenance and the long service life of the engine models for which the equipment is adapted, no material replacement of the equipment is expected to be required in the coming years. In addition

to the existing equipment, the Israeli Ministry of Defense has made available to the Group various tools and facilities required for its activity. This equipment (other than improvement expenditures recorded as part of BSEL's equipment) is not part of the Group's assets. The Group operates an F100 engine test cell of the Israeli Air Force owned by the Ministry of Defense.

The Group is preparing to adapt its infrastructure to increasing demand, as part of which it is equipping itself with advanced equipment supporting advanced and innovative development and production processes. In addition, during 2024 the Company commenced construction of an additional advanced complex of approximately 2,800 square meters to expand its engineering and production capabilities, intended to support growth in the scope of activity in the engine segment. The Company invested approximately USD 6 million in this project. The Company expects the complex to become operational during the second quarter of 2026.

The information regarding the growth in the scope of activity in the engine segment and the expected investment in the facility constitutes forward-looking information as defined in the Securities Law, reflecting current assessments and assumptions of the Company's management as of this date, based on various estimates that are inherently uncertain and may not materialize, or may materialize in a materially different manner, in whole or in part, inter alia due to factors beyond the Company's control, including factors under the customers' control and/or market conditions and the like.

Part E — Matters Relating to the Group's Operations as a Whole

10. Seasonality

The Company's operations are not characterized by seasonality.

11. Real Estate and Facilities

The BSEL plant at the Bet Shemesh site is built on an area of approximately 47,000 sq.m. on a lot of approximately 140 dunams in the Western Industrial Zone of Bet Shemesh (following the sale of approximately 149 vacant dunams during 2023). The Carmel Forge plant is built on an area of approximately 21,150 sq.m. on a lot of approximately 53 dunams in Tirat HaCarmel. The LPO plant is built on an area of approximately 8,000 sq.m. on a lot of approximately 55 dunams in Ada, Serbia. The Turbine Standard plant is built on an area of approximately 4,900 sq.m. in Holland, Ohio, USA, and approximately 930 sq.m. in Tamarac, Florida, USA. The Turbine Standard premises are not owned by the Company; the Company leases these spaces under long-term agreements. (For the cost of buildings and land, see Notes 8–9 to the Consolidated Financial Statements as of December 31, 2025.)

On October 14, 2010, the Company signed a capitalized lease agreement with the Israel Land Authority with respect to the plant land in Bet Shemesh. The new agreement came into effect on April 1, 2011, for a period of 49 years.

As noted above, in 2023, the subsidiary sold the leasehold rights over land totaling approximately 149 dunams for aggregate consideration of approximately NIS 320 million, before taxes and additional payments. The Company estimates that the net consideration after taxes, expenses, and additional payments amounted to between NIS 180 million and NIS 220 million. For purposes of conservatism, the 2023 results presented in this report reflect net consideration of approximately NIS 180 million.

For further details, see Immediate Reports dated February 12, 2023, March 29, 2023, and August 28, 2023 (reference numbers: 2023-01-015948, 2023-01-033735, and 2023-01-080758, respectively).

For further information regarding leasehold rights over the land and the owner guarantee provided in connection with the real estate to secure the Company's obligations under its agreement with the State, see Notes 8 and 32 to the Financial Statements.

During 2024, the Company commenced construction of an additional advanced facility of approximately 2,800 sq.m. for the expansion of its engineering and production capabilities, designed to support growth in operational volumes within the Engines segment. The Company has invested approximately USD 6 million in this initiative. The Company expects the facility to become operational during the second quarter of 2026.

12. Research and Development; Investment Plans

In the Engine Parts segment, the Group has made significant investments in recent years as part of its preparation for growth in operations, entailing increased capital expenditure and the expansion of its production and technological capabilities, as detailed in Section 8.10 above. The Company estimates that the investments it has made to date embody substantial growth potential without requiring significant additional investment in order to fulfill the existing framework agreements, except as described in this report.

In the Engines segment, the Group conducts development and engineering work in accordance with specific orders received, typically under partial or full customer funding. In light of anticipated growth in development activity within the segment, the Company is expanding its capabilities in this area as detailed in Section 9 above.

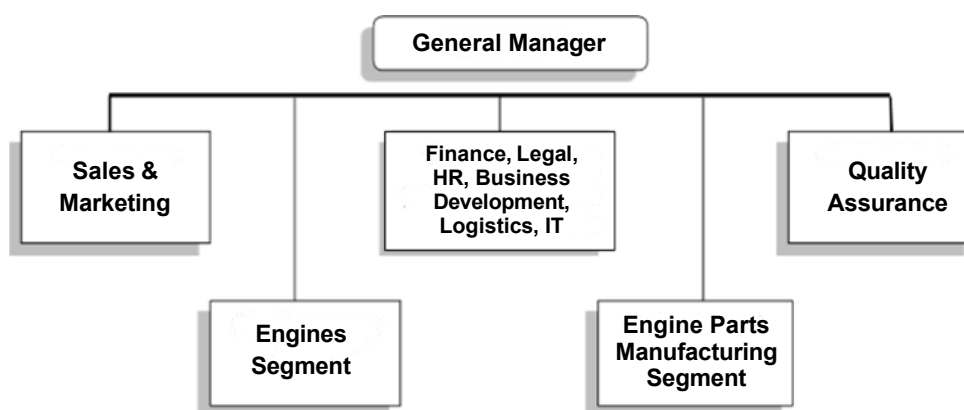
13. Intangible Assets

As of December 31, 2025, the Group holds intangible assets totaling approximately USD 24.1 million, arising from goodwill and customer relationships of Turbine Standard, which was acquired during the year. For details, see Note 10 to the Financial Statements and Section 21.4 below.

14. Human Capital

14.1. Organizational Structure

The following chart presents the Group's organizational structure as of the date of this report:



14.2. Group Headcount

	31.12.2025	31.12.2024	31.12.2023
Engines Segment	277	215	173
Engine Parts Manufacturing Segment	823	801	807
Other — primarily service and support functions	283	244	228
Total	1,383	1,260	1,208
Total employees in Israel	1,074	1,021	940
Total employees in Serbia	248	239	268
Total employees in the USA	61	-	-

14.3. The Group is not materially dependent on any of its employees.

14.4. The labor market has been characterized in recent years, and to an increasing degree since the COVID-19 crisis, by growing difficulty in retaining and recruiting skilled, stable, and long-tenured employees. The Company is investing substantial resources to adapt

its terms of employment in the broadest sense — both to retain its existing workforce and to serve as a magnet for the high-caliber talent required to address its current and future challenges.

- 14.5. As part of its human resources preparedness efforts, the Group established a training center for employees within its Bet Shemesh plant and commenced its operations. For further details, see Section 8.8 above.
- 14.6. The Group conducts ongoing training programs for its staff — domestically and internationally, at all levels — both on-the-job and separately by external experts from abroad.
- 14.7. The Company is party to collective bargaining agreements at all of its sites in Israel. Accordingly, approximately 65% of the Group's employees are covered by collective agreements that are renewed from time to time. The remainder of the Group's employees are employed under personal contracts, as determined by management. Employees are entitled to wages and employment conditions, as well as social benefits, in accordance with prevailing practice and/or applicable law and/or the relevant agreements applicable to them.
- 14.8. BSEL maintains provisions in its books in respect of its obligations related to termination of employment that are not covered by the arrangements detailed in Note 15 to the Financial Statements, or by deposits into a comprehensive pension plan, supplemental payments into provident funds for severance pay, or executive insurance policies. In management's assessment, the deposits and provisions fully cover BSEL's obligations to its employees in respect of termination of employment.

14.9. Employee Compensation Plans

The Group has the ability to compensate certain executives and employees through a variable equity component (options) and/or a variable cash component (bonuses) for the achievement of specific targets and performance metrics.

For details regarding option grants during the reporting period, see Section 5.3 of the Board of Directors' Report attached to this Periodic Report. For details regarding compensation paid to the five highest earners, see Regulation 21 in the Additional Information section.

15. Working Capital

- 15.1. Working Capital — As of December 31, 2025, the Company's working capital totals USD 161,287 thousand, compared to USD 87,812 thousand as of December 31, 2024. For further details, see Section 3 of Part B of this Periodic Report.
- 15.2. Inventory — The Group generally produces inventory on an order basis and does not manufacture products for stock, primarily within the Parts segment. Raw material and spare parts procurement is conducted in accordance with projected order forecasts and production efficiency considerations. Due to prolonged lead times for raw materials and components across all of its operations, the Company is required to plan its inventory, procurement, and delivery scheduling well in advance, and to reserve production windows with its suppliers. In addition, the Company is preparing to meet the demands of its anticipated operational growth. As a result, inventory volumes and purchase orders are growing — a trend expected to continue in the future. The Group also periodically procures inventories of spare parts for future projects. The majority of the Group's inventory consists of work-in-progress on the production floor (raw materials, spare parts, and labor hours). Although the Group does not manufacture products for stock, it is contractually required under certain customer agreements to maintain specific safety levels of spare parts or components. In certain instances, against specific customer orders or where the Group

receives an advance payment from a customer, the Group is required to hold inventories of raw materials and spare parts for extended periods. The Group's inventory includes a number of complete engines designated for sale or lease.

15.3. Trade Receivables — In 2025, the average collection period was 47 days, compared to 53 days in 2024. Given the size and financial strength of the principal customers, the provision for bad debts is not material.

15.4. Trade Payables — The average trade payables period in 2025 was approximately 44 days, compared to approximately 46 days in 2024.

16. Investments

For details regarding the Group's investments, see Sections 21 and 25 below.

17. Financing

17.1. The following presents the weighted average interest rates and period-end rates (including base rate) on Group loans outstanding during the reporting period, distinguishing between short-term and long-term loans, and between bank and non-bank credit sources:

	Interest as of December 31, 2025	Average interest rate in 2025	Balance as of Dec 31, 2025 (USD thousands)
Short-term loans	5.7%	5.1%	20*
Long-term loans from banking sources (including current maturities)	4.5%	4.8%	13,926

* Net of cash balances arising from capital raising.

17.2. The following sets out details of the Group's secured credit facilities (in USD thousands):

	31.12.2025
	79,593
Amount utilized*	47,384
Available balance	32,209
Avg. interest on utilized amount	1.8%**

* Includes approximately USD 33.5 million in respect of guarantees to suppliers and service providers.

** Approximately 70% of the utilized amount relates to guarantees to suppliers and service providers, bearing interest below 1%.

17.3. Details of the Group's material long-term loans:

17.3.1. Details of material long-term loans (including current maturities) as of December 31, 2025

No.	Currency	Loan Amount	Interest (Dec 31, 2025)	Lender Name	Loan Description	Covenants & Compliance	Collateral
1	Dollar	M 25	M 7.0	The First International Bank of Israel Ltd.	At a fixed annual interest rate of 4.5%. The loan is for a period of 108 months and shall be repaid in quarterly installments: interest payments commencing from the date the loan was drawn, while principal repayments shall begin 12 months from the date the loan was drawn.	(1) Equity shall not be less than USD 80 million Dollar, and the ratio of equity to total assets shall not be less than 30.0%. As of December 31, 2025, the said ratio is approximately 59.9% .	BSEL has provided the banking corporation with a first-ranking fixed pledge and charge, without limitation in amount, over all the shares of Carmel Forge Ltd., held by it, and all rights, income and benefits deriving from or related to such shares, which have been deposited with the banking corporation. In addition, a negative pledge exists in favor of the bank
2	Dollar	M 20	M 5.6		At a variable interest rate of Prime + 1.675%. The loan is for a period of 108 months and shall be repaid in quarterly installments: interest payments commencing from the date the loan was drawn, while principal repayments shall begin 12 months from the date the loan was drawn.	(2) The debt-to- EBITDA ratio shall not exceed 4.5 at any time. As of December 31, 2025, the debt-to- EBITDA ratio is 0.1 .	
3	Dollar	M 8	M 1.1	Bank Hapoalim Ltd.	At a fixed annual interest rate of 2.2%. The loan is for a period of 60 months and shall be repaid in quarterly installments: both interest and principal payments commencing from the quarter following the date the loan was drawn.	For the purchase of specific equipment.	A lien over machinery in an amount equal to the loan amount.
4	Dollar	M 2.2	M 0.2	The First International Bank of Israel Ltd.	At a fixed annual interest rate of 2.2%. The loan is for a period of 60 months and shall be repaid in quarterly installments: both interest and principal payments commencing from the quarter following the date the loan was drawn.	For the purchase of specific equipment.	A lien over a machine in an amount equal to the loan amount.

Additional loans from other banks exist under various terms in amounts that are not material to the Company.

17.3.2. Additional Material Restrictions

Distribution of dividends shall be permitted subject to compliance with all financial

⁴ "Equity", "Debt" and "EBITDA" and "Operating Profit" are as defined in the financial covenant's agreement with the bank. These terms are standard terms; the definition of "Equity" refers to equity after certain deductions, primarily including intangible assets and deferred expenses. The definition of "Debt" refers to financial liabilities, including leases, net of cash and cash equivalents. The definition of "Operating Profit" refers to the cumulative amount according to the financial statements for the four consecutive calendar quarters, excluding one-off income and expenses that are not part of the ordinary course of business. The terms EBITDA and Operating Profit exclude one-off income and expenses and the revaluation of employee stock options, which do not reflect the Group's ordinary course of business. It should be noted that the EBITDA and Operating Profit measures presented in this report are not adjusted for such one-off income and expenses.

⁵ The banking system transitioned from LIBOR interest rates to a benchmark rate (USD SOFR), and accordingly, during 2023, both the margin and the base interest rate for this loan were updated.

covenants and up to a maximum of 50% of the net profit for the relevant year. In addition, in the event of a change of control in the Company without obtaining the approval of the banking corporation, or in the event of a change of control in BSEL, except as a result of a merger of the Company into BSEL (under conditions agreed with the banking corporation), the banking corporation shall be entitled, but not obligated, to declare all of the Company's debts and obligations immediately due and payable and to take any legal measures available to it. Furthermore, BSEL and Carmel Forge Ltd. have undertaken not to create, nor to undertake to create, any lien or encumbrance over their assets or property, in whole or in part, of any kind whatsoever, whether existing now or in the future, in favor of any person and/or entity, except for permitted liens in accordance with the provisions of the agreement. The dividend distribution in 2023 received the approval of the banking corporation.

18. Taxation

For tax aspects applicable to the Company, see Note 17 to the Financial Statements.

19. Environmental Risks and Risk Management

The potential environmental risks arising from the Company's operations as an aerospace manufacturing company — and which may have a material impact on the Company — relate to air and environmental emissions, as well as the storage and use of hazardous materials, including fuels and explosive materials. Accordingly, the Company's operations are subject to extensive environmental regulation. The Company operates on a regular basis in accordance with the regulatory permits granted to it in the course of its activities.

19.1. Company Policy on Environmental Risks

As part of the importance the Company attaches to environmental matters, and in recognition of the direct environmental impact of its business and operational activities, the Company promotes, and initiates actions designed to protect the environment and minimize environmental impacts. In this context, the Company implements an environmental risk management policy that includes:

- A. Training programs for all Company employees and management, as well as exercises and professional development courses for relevant role holders, on environmental topics (hazardous materials, radiation, explosives, fuels, storage, handling, and disposal of hazardous waste, etc.);
- B. Emergency team drills to assess emergency team readiness for potential emergency scenarios, conducted in collaboration with relevant bodies appropriate to the selected scenario (e.g., police and rescue forces);
- C. Stack sampling to verify stack integrity and emissions levels. In addition, effluent sampling is conducted at the Company in accordance with the approved monitoring program.

In order to comply with the requirements of the Ministry of Environmental Protection and the local authority, the Company is required to incur various investments and expenditures, including the payment of fees and periodic inspection costs, expenses for hazardous waste and refuse disposal, and adaptation of fire suppression systems to regulatory requirements.

Provided that the regulatory requirements applicable to the Group do not change, the Company estimates, based on information currently available to it, that the Group will be required to make future investments in the coming years at a level similar to prior years, which represent amounts that are not material to the Group.

During 2024, the State enacted several legislative amendments effective in 2027, relating to integrated business licensing, designed to consolidate and streamline licensing and

oversight procedures in the field of environmental protection. The Company assesses the potential effects of the reform on its operational aspects, regulatory expenses, and the investments required to achieve compliance, and is preparing accordingly.

In May 2023, the European Union adopted a directive establishing carbon border adjustment taxation mechanisms (Carbon Border Adjustment Mechanism "CBAM") (the "**Directive**"). Under the provisions of the Directive, companies trading with EU member states and importing into those states certain products listed in Annex I to the Directive will be required to report on the carbon footprint generated during the manufacturing process of their products, and to pay a tax accordingly based on the reported volume of emissions. The Company has examined the provisions of the Directive and the extent of its applicability to the Company and has determined that the Group's products are not included within the category subject to reporting requirements. Notwithstanding, and without being required to do so under the Directive, the Company has voluntarily resolved to measure the carbon footprint generated during the manufacturing process of its products.

As of the date of this report, the Company is not a party to any legal proceedings relating to environmental matters.

The foregoing information regarding future investments by the Group in the coming years in immaterial amounts constitutes forward-looking information, as defined in the Securities Law, based inter alia on information currently known to Company and Group management, as well as on its experience. There is no certainty that such information will materialize in any form, including due to external factors beyond the Company's or Group's control, such as various regulatory factors, regulatory developments, and/or the materialization of any of the risk factors applicable to the Company's operations as set out in Section 27 below.

20. Restrictions and Regulatory Oversight

- 20.1. Licenses — Both the Company and BSEL hold a business operating license pursuant to the Business Licensing Law, 5728-1968. The management and oversight of BSEL's business license is conducted under the supervision of the Unit for Licensing of Defense Establishments within the Ministry of Interior. The Ministry of Interior verifies and oversees the following areas: construction, environmental protection, public health, accessibility, employee safety, fire prevention, internal security, national security, and civil defense (Home Front Command). The Company is preparing for and assessing the requirements of the Ministry of Environmental Protection regarding the "Integrated Business Licensing Law." Based on information published by the Ministry, the Company will be required to comply with this Law in advance of 2027.
- 20.2. Export Licenses — As the plant provides services in the defense sector, such services require, by law, the obtaining of export licenses both from the State of Israel (pursuant to the Defense Export Control Law, 5767-2007) and from the United States Government (pursuant to the International Traffic in Arms Regulations (ITAR) or any other applicable legislation) in connection with the procurement of spare parts. In addition, the Company is at times required to provide various declarations to its suppliers regarding the intended use of the procurement, in order to obtain the export license of the country in which the supplier operates.
- 20.3. Certifications — In order to manufacture parts for jet engines, BSEL is required to hold business license certifications and approvals from aviation authorities and customers.
BSEL is required — and where applicable, its subsidiaries are also required — to comply with international aviation standards and customer procedures, including:
 - A. ISO 9001:2015 and AS9100D (international quality management standard for the aviation and aerospace industries);
 - B. Civil aviation standards: FAA, EASA, Civil Aviation Authority of Israel (**CAAI**) — Ministry of Transport.

- C. The procedures of the Company's major customers, including the Israeli Air Force, Pratt & Whitney, UTC, MTU, GE and SNECMA (these customers are world leaders in their field and are accepted by the other customers).

Compliance with the standards requirements is examined every year and the standards are examined by the relevant body — the Standards Institution of Israel, audit teams of civil aviation authorities, the customers, by the PRI-NADCAP association authorized on behalf of the customers to conduct process audits, and others.

BSEL holds valid certifications from all the above bodies, which periodically audit its operations and renew the certifications. To the best of the Company's knowledge as of the date of this report, the requirements of these bodies, which are updated from time to time, do not require material changes or investments.

- 20.4. Quality Assurance — The Group's quality assurance system meets the requirements of the world's leading companies in its field. BSEL holds certifications from the world's leading jet engine manufacturers — including PWA, PWC, GE, MTU, SNECMA, SHE – Turbomeca and ITP, among others (the parts manufactured by the Group are considered critical in jet engines, and there are not many companies in the world, other than those that design the engines themselves, that are quality-certified to manufacture these parts).

BSEL's quality assurance system ensures, on an ongoing basis, compliance with all required certifications as described above, through oversight of their day-to-day implementation, through audits, lessons learned, ongoing correction of non-conformances, the maintenance of a continuous improvement system, and adaptation to changes occurring in the field.

21. **Material Agreements**

For details regarding engagements with the Group's customers, see Sections 8.4 and 9.3 above.

- 21.1. Following the Immediate Reports of September 12, 2023 and March 18, 2024, regarding engagements with a leading customer in its field, an unrelated third party to the Company or its controlling shareholder and of high financial strength (hereinafter in this subsection: the "**Customer**"), for the development and manufacture of jet engines in the Company's Engines segment (hereinafter in this subsection: the "**Prior Engagements**"), on August 4, 2025, the Company announced that it had received additional orders from the Customer in the amount of approximately USD 100 million (approximately NIS 337 million) (hereinafter: the "**Additional Engagements**").

The total cumulative volume of orders received as of December 31, 2025, under both the Additional Engagements and the Prior Engagements stands at approximately USD 254 million (approximately NIS 897 million), which are expected to generate revenues for the Company over the term of the engagement, which is expected to span up to 4–7 years.

In addition, the Company has raised its overall estimate for the total value of the above engagements from approximately NIS 1 billion to approximately NIS 1.3 billion (of which NIS 897 million has already been received as stated). It is clarified that the forecast for additional future orders over the term of the engagement is an estimate only and is not binding upon the Customer.

In the Company's assessment, the partial materialization of its estimates regarding future orders is indicative of the quality of execution, technological capabilities and the trust the Company has earned from this significant and strategic customer. It also constitutes a positive indication as to the probability of the Company's estimates regarding additional anticipated orders materializing. For further details, see the Company's Immediate Reports of September 12, 2023, March 19, 2024 and August 4, 2025 [reference numbers: 2023-01-086011, 2024-01-023503 and 2025-01-057493, respectively]. In connection with the above engagement, the Company received an exemption certificate pursuant to Section 19(a)(2) of the Securities Law, in connection with details whose disclosure could prejudice national security.

The foregoing information regarding the projected revenues and costs over the term of the engagement constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company and may not materialize as a result of factors that are not dependent on the Company, such as the Customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

- 21.2. On January 29, 2023, BSEL entered into a framework agreement with a government-owned company held by the Ministry of Defense of a European state, for the provision of maintenance services for F100 jet engines and engine components of the customer state's air force, for their repair and overhaul by BSEL.

On September 3, 2024, BSEL entered into an additional agreement with the Customer to increase the scope agreed under the transaction. In accordance with the terms of the agreement and the experience accumulated by the Company, the additional scope is estimated by the Company at approximately USD 28 million, which is added to approximately USD 36 million, the remaining balance of the original transaction yet to be performed, at current prices, for a combined total of approximately USD 64 million.

In the Company's estimate, the remaining execution period of the agreement including the aforementioned increase is expected to extend over approximately three and a half years. The agreement is attributed to the Company's Engines segment operations.

In the Company's assessment, the expansion of this significant agreement reflects the considerable trust the Company commands from its customers and reflects the strategic importance of the Engines segment's operations, in which securing multi-year contracts is uncommon and constitutes an anchor for the continued growth of the Engines segment.

For further details, see the Company's Immediate Reports of January 29, 2023 and September 4, 2024 (reference numbers: 2023-01-010378 and 2024-01-600736, respectively).

The foregoing information regarding the estimates as to the additional scope, the remaining balance of the original transaction yet to be performed, the term of the agreement and the continued growth of the Engines segment constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company and BSEL and may not materialize as a result of factors that are not dependent on the Company or BSEL, such as the Customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

- 21.3. On September 27, 2024, BSEL signed a long-term framework agreement (expansion and extension) with an existing customer of the Company, Pratt & Whitney (USA), one of the world's leading aviation engine OEMs, for the period 2024 to 2030, with an option for a two-year extension. The agreement covers two leading engine programs in global aviation in which the customer is a key player. Under the agreement, it was agreed that in addition to the extension and expansion of current operations, the Company will develop and manufacture new parts for leading programs within the Engine Parts segment operations.

As of this date, the Company estimates the agreement at approximately USD 205 million and approximately USD 280 million including the option. It is clarified that the order forecast over the term of the agreement is an estimate only and is based, inter alia, on information received from the customer.

The agreement has added value and strategic importance for the Company's Engine Parts segment operations, as it is focused on this customer's most advanced engine programs and constitutes an expression of the customer's confidence in the Company's ability to meet uncompromising requirements in the areas of quality and regular delivery. Furthermore, the development and manufacture of these parts, including the new ones, are intended to be carried out at the Company's advanced plant in Bet Shemesh, in order to contribute significantly to the maximization of operational efficiency.

The foregoing information regarding the projected scope of consideration to the Company for the transaction under the agreement, including its estimate as to the scope of the engagement under the agreement, the exercise of the option period, the impact of the agreement on the Company's operations and the anticipated orders, constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, BSEL or received from the customer and may not materialize as a result of factors that are not dependent on the Company, such as the foreign customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

For further details, see the Company's Immediate Reports of August 29, 2024 and September 29, 2024 (reference numbers: 2024-01-090222 and 2024-01-606355, respectively).

- 21.4. On November 15, 2024, BSEL entered into an agreement with Turbine Standard Ltd., a limited liability company (LLC) incorporated in Ohio, USA, engaged in the provision of jet engine repair and maintenance services for aircraft (MRO) (hereinafter: the "**Acquired Company**"), and with Mr. Dave Corwin, the sole holder of all membership interests in the Acquired Company, for the acquisition of 80 membership interests representing 80% of the membership interests in the Acquired Company (on a fully diluted basis), subject to various options as detailed in the announcement regarding the engagement.

Pursuant to the agreement, BSEL will acquire the membership interests for total consideration of USD 33,300 thousand, payable upon closing of the transaction, subject to various adjustments, all in accordance with the provisions of the agreement.

On March 3, 2025, the transaction was completed and at that date the shareholders' agreement between the seller and BSEL came into effect, as detailed in the announcement regarding the engagement. In accordance with the provisions of the agreement, BSEL's wholly owned subsidiary, BSEL USA Inc., holds the shares of the Acquired Company. At closing, total consideration of USD 32,932 thousand was paid as described above.

For further details, see the Company's Immediate Reports of November 17, 2024 and March 4, 2025 (reference numbers: 2024-01-616140 and 2025-01-014310, respectively).

The foregoing information regarding the projected consideration adjustments constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company and may materialize differently as a result of factors that are not dependent on the Company, such as regulatory changes or the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

- 21.5. On February 26, 2025, BSEL entered into a joint venture agreement with INGENIEURBÜRO M. ZIPPERER GMBH (JetCat), a German company engaged in the development, manufacture and sale of small engines (hereinafter in this subsection: "**JetCat Germany**" or "**JC**"; together with "**BSEL**": the "**Parties**"), where the activity is intended for the small engines market for the military sector and is attributed to the Company's Engines segment. Under the engagement, the Parties will establish two jointly-owned companies in equal shares as detailed below (hereinafter: the "**Companies**" and the "**Engagement**", respectively).

The following are the principal details regarding the Companies under the Engagement:

1. The First Company — Through BSEL's wholly owned subsidiary and JetCat Germany, JetCat Defense an American company, was established to serve as the exclusive distributor of both Companies in the USA (hereinafter: "**JC Defense**"). JC Defense is engaged in the supply of small engines to customers in the U.S. defense market. The objective of this activity is to penetrate the U.S. defense market for the supply of commercial jet engines for small unmanned aerial platforms. On September 30, 2025, the shares of the American company were transferred from BSEL to Turbine Standard (TS). In accordance with the agreement, the minority in TS shall not be entitled to a share of JC Defense's profits.
2. The Second Company — Through BSEL's subsidiary and JC, an Israeli company was established, engaged in the supply of small engines to customers in the Israeli defense market.

This strategic engagement combines the Group's extensive experience in the development and manufacture of small engines intended for the defense industry together with JetCat's innovation in development and manufacturing processes — which is revolutionary and commercially oriented toward high-volume manufacturing — in order to provide a response to the urgent need identified by the Parties for accessible mass production of military propulsion systems.

In the Company's assessment, this engagement may enable significant entry into the U.S. market with a significant expansion of the product range in accordance with market requirements. In addition, in the Company's assessment, the engagement has high added value and will enable significant synergies between BSEL and JetCat and their joint capabilities.

The foregoing information regarding the activities of the companies to be established, including anticipated revenues and projected significant entry into the U.S. market, constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, BSEL or received from JetCat and may not materialize as a result of factors that are not dependent on the Company, such as regulatory changes, various regulatory factors, restrictions on the Company's activity in its areas of operation, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

For further details, see the Company's Immediate Report of February 27, 2025 (reference number: 2025-01-013330).

- 21.6. On March 17, 2025, Carmel Forge entered into an agreement totaling approximately USD 530 million for the significant renewal and expansion of an existing long-term framework agreement (hereinafter in this subsection: the "**Original Agreement**"), as part of the Group's Engine Parts segment operations, with an existing customer of the Company and Carmel Forge, one of the world's leading aviation engine OEMs (hereinafter in this subsection: the "**Customer**" and the "**Agreement**"; Carmel Forge and the Customer shall be referred to collectively in this section as the "**Parties**").

Over approximately 16 years of the Agreement, Carmel Forge will continue manufacturing dozens of parts for leading engine programs in the civil aviation market, and in addition new parts were added whose value will be determined following the certification process.

The Agreement came into effect on April 1, 2025 and will continue in effect until December 31, 2040, and will replace the Original Agreement, which was due to remain in effect until December 31, 2028. The total remaining balance to be delivered under the Original Agreement (from January 1, 2025 to December 31, 2028) stands at approximately USD 38 million.

The foregoing information regarding the projected scope of consideration to the Company for the transaction under the agreement, including its estimate as to the scope of the engagement under the agreement, the value to be determined following the certification process and the impact of the agreement on the Group's operations, constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, Carmel Forge, the Group or received from the customer and may not materialize as a result of factors that are not dependent on the Company, such as the customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

For further details, see the Company's Immediate Report of March 18, 2025 (reference number: 2025-01-017784).

- 21.7. On August 5, 2025, Carmel Forge signed the renewal of a long-term framework agreement with an existing customer in the Engine Parts segment, a leading manufacturer in the aviation world, for the manufacture of parts for civil aviation engine programs (hereinafter in this subsection: the "**Customer**" and the "**Agreement**"; Carmel Forge and the Customer shall be referred to collectively in this subsection as the "**Parties**"). The Agreement came into effect on January 2, 2026 for a period of 5 years until December 31, 2030. In the Company's estimate, the revenues over the term of the Agreement are expected to be approximately USD 27 million, and its renewal constitutes an expression of the customer's confidence in Carmel Forge's capabilities.

For further details, see the Company's Immediate Report of August 6, 2025 (reference number: 2025-01-058173).

The foregoing information regarding the projected scope of consideration to the Company for the transaction under the agreement, including its estimate as to the scope of the engagement under the agreement, constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, Carmel Forge, the Group or received from the customer and may not materialize as a

result of factors that are not dependent on the Company, such as the customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

- 21.8. On October 3, 2025, Carmel Forge entered into an agreement with a total expected value of approximately USD 1.2 billion for the significant renewal and expansion of an existing long-term framework agreement (hereinafter in this subsection: the **"Original Agreement"**), as part of the Group's Engine Parts segment operations, with an existing customer of the Company and Carmel Forge, one of the world's leading aviation engine OEMs (hereinafter in this subsection: the **"Customer"** and the **"Agreement"**; Carmel Forge and the Customer shall be referred to collectively in this section as the **"Parties"**).

The Agreement has retroactive effect from April 1, 2025 and will continue for approximately 15 years, with an option for an additional 5 years, and will replace the Original Agreement, which was due to remain in effect until December 31, 2028 (with a remaining balance of approximately USD 138 million). If the Parties decide to exercise the extension option, the value of the Agreement is expected to increase by an additional approximately USD 400 million. In addition, the further development and manufacture of new parts for two leading engine programs was agreed.

With the signing of this agreement, the Group increased the total value of its framework agreements on hand, as of the date of the report, from approximately USD 2.1 billion to approximately USD 3.2 billion.

In the Company's assessment, the transaction is a strategic transaction for the Group as a whole, given that this is the largest framework agreement the Group has signed in its history and constitutes a significant anchor reinforcing its position as a leading forging manufacturer and supplier to the global aviation market.

The foregoing information regarding the projected scope of consideration to the Company for the transaction under the agreement, including its estimate as to the scope of the engagement under the agreement, the value to be determined following the certification process and the impact of the agreement on the Group's operations, constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, Carmel Forge, the Group or received from the customer and may not materialize as a result of factors that are not dependent on the Company, such as the customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

- 21.9. On March 9, 2026, the Company announced that its subsidiary, Bet Shemesh Engines Ltd., entered an expansion of existing engagements with an existing customer in the Engine Parts segment, an international manufacturer in the aviation and engines field. Under the expansion, new items were added to some of the world's most advanced engine programs, item prices were updated, and the Company's market share to be supplied was increased. The product supply period is until end-2032 (hereinafter in this section: the **"Period"**). The value of the expansion and other matters agreed with the customer is estimated at approximately USD 80 million over the Period.

It is clarified that the growth forecast is an estimate only and is not binding upon the customer. For further details, see the Company's Immediate Report of March 9, 2026 (reference number: 2026-01-020596), which is incorporated herein by reference.

The foregoing information regarding the projected scope of consideration to the Company for the transaction under the agreement, including its estimate as to the scope of the engagement under the agreement, the value to be determined following the certification process and the impact of the agreement on the Group's operations, constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, Carmel Forge, the Group or received from the customer and may not materialize as a result of factors that are not dependent on the Company, such as the customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

- 21.10. On March 16, 2026, the Company announced that JetCat Defense Inc. (hereinafter: "JetCat Defense") received an order from CoAspire, a U.S. defense and aerospace company specializing in the development, design and manufacture of cruise missiles under defense programs for the U.S. Government and other defense entities. The order is in the amount of approximately USD 10.2 million for supply during 2026, subject to the completion of a certification process expected to take place during the next three months. In addition, the Company estimates that further orders are expected to be received from this customer beginning from 2027.

For further details, see the Company's Immediate Report of March 16, 2026 (reference number: 2026-01-022785).

The foregoing information regarding the projected scope of consideration to the Company for the transaction under the agreement, including its estimate as to the scope of the engagement under the agreement, the value to be determined following the certification process and the impact of the agreement on the Group's operations, constitutes forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, Carmel Forge, the Group or received from the customer and may not materialize as a result of factors that are not dependent on the Company, such as the customer's needs, regulatory changes, the existence of competitors, the occurrence of any of the Company's risk factors as described in Section 27 of this Chapter, etc.

As of the date of this report, other than as set out above, the Group has no additional material agreements outside the ordinary course of business.

22. Insurance

The Group holds a third-party liability insurance policy in connection with aviation product liability up to a ceiling of USD 100 million. As of the date of this report, and throughout all years of the Group's operations, no claims have been submitted to the insurance company in respect of the Group's product liability, and the Company is unable to assess or quantify these risks in advance.

The Group is insured under a property and casualty insurance policy for buildings, equipment, inventory, customer property, and loss of profits. In the Company's assessment, the insurance coverage is commensurate with the scope of its assets and the nature of its operations.

23. Legal Proceedings

As of the date of the report, no material legal proceedings are pending by or against the Group.

Furthermore, to the best of the Company's knowledge as of the date of publication of this report, there is nobody that is examining or planning to take material legal proceedings against the Group.

24. Objectives and Business Strategy

- 24.1. The jet engine parts manufacturing sector, in which the Group operates primarily through the manufacture of forgings, castings and precision machining of parts for aviation jet engines, is characterized by a limited number of players, long-term relationships between customers and suppliers, the importance of many years of experience and stringent regulation. The Company has been operating in the field for over 50 years, manufacturing the most critical engine parts for the largest customers in the market. In recent years, the Company has been operating pursuant to a strategy of entering into the world's newest engine programs — engines that are expected to be in service for decades to come. In this context, the Group has signed several long-term contracts for the manufacture of parts for these engines. These agreements are characterized by larger production volumes and higher product requirements. This requires the planning of aligned production lines to achieve maximum operational efficiency and the adaptation of the technologies required to achieve the required quality level.
- 24.2. Alongside a market environment of high demand, which derives in part from bottlenecks in the global supply chain, the Group continues to seek to realize long-term opportunities with its customers, and focuses on investment, workforce recruitment and professional training, and the development and certification of new parts, which constitute the infrastructure for the Group's future growth and the execution of the long-term contracts to which it is party. In addition, these investments, which the Company has made and will make in the future, enable it to maintain its position at the forefront of manufacturing technology and its reputation as a supplier to the highest standards in the market.
- 24.3. In the Engines segment, across the full breadth of its activities in the field, the Company is working to expand its capabilities — both in engines for which it is certified and in new avenues — with an emphasis on the defense market and penetration into additional territories with an emphasis on the USA. In addition, the Company is working to leverage its engineering and manufacturing capabilities, knowledge and experience to expand collaborations primarily in the defense sector, as well as to build upon these capabilities in light of growing demand in the defense market, which continues to intensify on the one hand, against relatively limited supply on the other.

25. Outlook for Developments in the Coming Year

In the Company's Engine Parts segment, the Company anticipates the continued growth of its operations through the optimal utilization of the new production equipment, which is expected to bring significant improvements in processes, both in production times and in quality levels. Furthermore, the Company is examining, in certain processes within the segment, additional investments designed to preserve and strengthen its position at the technological forefront. In parallel, the Company is working to capitalize on opportunities arising from supply chain bottleneck market conditions, with both existing customers and new potential customers, to secure additional projects with an emphasis on next-generation engine components in the market.

In the Engines segment operations, the Group is working to grow its operations based on its engineering and manufacturing capabilities, its business and technological standing, and the realization of the various synergies with the acquired company, Turbine Standard, and the partnership with JetCat, while pursuing business opportunities with an emphasis on the defense market in the USA and Israel and expanding its customer base in MRO operations abroad.

26. Financial Information by Geographic Area

For financial information regarding geographic areas, see Note 30(c) to the Consolidated Financial Statements as of December 31, 2025.

27. Discussion of Risk Factors

27.1. Macro Factors

27.1.1. Global Economic Crisis

The existence of a global economic crisis — whether arising directly from financial market instability or indirectly as a result of global pandemic outbreaks, the outbreak of large-scale violent events affecting macroeconomic parameters globally, or other factors — may expose the Company, its suppliers and its customers to risks due to a material contraction in demand for the Group's products/services, unavailability of raw materials, delays in the delivery of products and services by the Company, reduced financing capacity, and consequently a decline in the Group's sales. The occurrence of the foregoing may adversely affect the Company's business results.

27.1.2. Changes in Raw Material Prices and Availability

As detailed above, the principal raw materials used by the Group are various metal alloys such as nickel, chromium, cobalt, titanium, metal powder and other alloys, where certain raw materials and spare parts are supplied by the customers. In most cases, there is protection for the Group's raw material costs through a mechanism for the adjustment of the selling price to customers based on a pre-agreed formula, although certain indexation mechanisms require updating and adaptation, as described above. Although the risk the Group sees because of changes in raw material prices is relatively low, it could impact on business results in the event of a sharp change in raw material prices and other production inputs. An additional risk in this area lies in a global shortage of raw materials, which could affect not only metal prices but also the very supply thereof. This shortage may also be manifested in spare parts for the Engines segment's operations. See also Section 8.9 above.

27.1.3. Foreign Exchange Rate Changes

The Group has operational exposure in respect of revenues denominated in dollars against a portion of costs denominated in Israeli currency. An appreciation of the shekel exchange rate against the dollar adversely affects the Company's results, as a portion of the Company's expenses (primarily wages) are in shekels, while the majority of its revenues are received in foreign currency, primarily U.S. dollars. Conversely, an appreciation of the dollar exchange rate against the shekel will produce the opposite result.

27.1.4. Interest Rates

As of the date of this report, the majority of the Group's liabilities are dollar-denominated, and a portion are shekel-denominated. Certain credit facilities bear variable interest based on the SOFR rate (for dollar-denominated credit) and the Prime rate (for shekel-denominated credit), and a portion bear fixed interest rates. Changes in the SOFR and Prime rates will affect the Group's results accordingly. The risk of an increase in interest rates is linked to the Company's leverage level. As of today, the leverage level is not high and therefore this is not a material risk factor.

27.1.5. Changes in the Geopolitical Situation and International Operations

Changes in the geopolitical situation in Israel and globally may affect the Group's sales, the majority of which are directed to overseas markets. Changes in the political standing of the State of Israel could adversely affect its operations, profitability and cash flows, as well as restrictions on its activities such as export license requirements from the countries of origin of its suppliers, the imposition of tariffs and sanctions, the adoption of political positions by its counterparties abroad and similar developments. Restrictive changes in international, political, economic or geographic standards and/or conditions could lead to a decline in revenues and, in turn, impair the Company's profitability and cash flows, including the initiation of legal and regulatory proceedings against the Group. In addition, some of the risks involved in conducting international business may include sanctions, tariffs and other restrictions. Since the Company also operates in the defense market, this risk may be more pronounced. Conflicts may have negative implications for demand for our products and services outside Israel. All the above could adversely affect the Group's business. Events such as the outbreak of hostilities between Russia and Ukraine may cause price increases and supply chain disruptions. See also Section 8.9 above.

27.2. Industry Risk Factors

27.2.1. High Industry Standards

The aviation engine field is characterized by strict adherence to high quality standards and rigorous schedule compliance. Failure to meet these standards on a specific order may result in the loss of orders from a particular customer and damage the Group's reputation. Given the small number of potential customers, reputational damage could cause a material decline in the Group's sales.

27.2.2. Volatility in the Global Aviation Market

The Group's framework agreements are based on an assumption of continued long-term demand for jet aircraft, primarily commercial. A global economic crisis could undermine this demand and materially affect the Group's growth plans and results.

27.2.3. Employee Recruitment and Retention

The growth in the scope of the Group's framework agreements in recent years requires the Group to continue expanding its headcount in the coming years, and to retain employees with the required professional training and skills. Difficulties in recruiting and retaining employees could impair the Group's ability to meet its commitments to its customers and to realize the Group's growth plans.

27.2.4. Information Security and Cyber

The Company operates various technological systems in the course of its operations (ranging from supporting computing systems such as accounting and various operational systems). A cyberattack could cause the shutdown of various systems, which could in turn disrupt the Company's ongoing operations and, in extreme cases, cause the partial or complete shutdown of the Company's production operations. In light of the foregoing, the Company works on an ongoing basis to identify cybersecurity risks and invests resources in preventing such risks.

27.2.5. Supply Chain

The Company is dependent on the regular supply of raw materials and components in its manufacturing operations. Disruptions to such supply — such as operational difficulties experienced by the Company's suppliers because of geopolitical events or limited production infrastructure relative to high demand — could adversely affect the Company's operations and its ability to meet its business plans.

27.2.6. Regulation and Certifications

The Group is subject to extensive legislation, regulation, licensing and certification requirements, as described in detail in this report. A tightening of such legislation, regulation or licensing could, among other things, give rise to the need for increased investments and/or operational costs, and could also restrict its operations.

27.3. Risks Specific to the Company

27.3.1. Customer Dependency

The Group's customers are primarily companies engaged in aircraft engine manufacturing as well as governmental entities in Israel and other countries. As stated above, the Group is dependent on several customers, and aggregate sales to these customers accounted for approximately 55% in 2023, approximately 54% in 2024, and approximately 39% in 2025. Due to dependency on a limited number of material customers, the loss of any one of them, or a portion thereof, could have a material impact on the Group's financial results. Furthermore, the cancellation or reduction of specific orders against the framework agreements with these customers could materially affect the Group's results, both in terms of revenue declines and profitability.

27.3.2. Insurance Coverage

As stated in Section 22 above, the Group holds a third-party liability insurance policy in connection with aviation product liability up to a ceiling of USD 100 million. Since the Group supplies critical parts for commercial jet engines, there is a risk that a failure of a critical part could cause engine loss and the total loss of an aircraft, where the insurance policy sum would not cover the amount of the damage, which could cause material harm to the Group's operations.

27.3.3. Environmental Protection Risks

Due to the nature of the Group's operations, the environmental risks that could have a material impact on the Group arise from the use of hazardous materials which the Group uses during its operations. The use of hazardous materials carries the potential for incidents involving the release of hazardous substances into the air or ground, and fires involving chemicals classified as hazardous materials. (For a more detailed discussion of the environmental risks, see Section 19 above.)

27.3.4. Technological Risks

The Company depends, across the full breadth of its operations and particularly in the development activities of the Engines segment, on advanced, innovative and continuously evolving technological and engineering capabilities. Failure to maintain these technological standards could adversely affect the Company's reputation, its operational results, its cash flows and its ability to enter into new agreements.

27.3.5. Terms of Material Agreements

Underestimation of engagement costs in material agreements. An inaccurate assessment of the costs involved in entering into material agreements could adversely affect the Group's business results. For details regarding material agreements, see Section 21 of this Chapter.

27.4. Risk Factors and the Company's Assessment of their Impact on the Company's Operations as a Whole

	High Impact	Medium Impact	Low Impact
Macro Risks			
Global economic crisis	✓		
Changes in raw material prices		✓	
Foreign exchange rate changes	✓		
Interest rates			✓
Changes in the geopolitical situation and international operations		✓	
Industry Risks			
High industry standards	✓		
Volatility in the global aviation market	✓		
Employee recruitment and retention	✓		
Information security and cyber		✓	
Supply chain		✓	
Regulation and certifications		✓	
Risks Specific to the Company			
Customer dependency	✓		
Liability / Product liability	✓		
Environmental protection risks		✓	
Terms of material agreements		✓	
Maintenance of technological capabilities	✓		

The foregoing information regarding risk factors constitutes forward-looking information, as defined in the Securities Law, reflecting the current assessments and assumptions of the Company's management as of this date, based on various estimates that are inherently uncertain and may not materialize, or may materialize in a materially different manner, in whole or in part — due to, inter alia, factors beyond the Company's control, including factors within the control of customers and third parties and/or due to market conditions, regulation and the like.

Bet Shemesh Engines Holdings (1997) Ltd.

PART B — BOARD OF DIRECTORS' REPORT ON THE STATE OF THE COMPANY'S AFFAIRS

For the Year Ended December 31, 2025



**Board of Directors' Report on the Financial Position of Bet Shemesh
Engines Holdings (1997) Ltd.**

For the year ended December 31, 2024

Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the "**Company**") is pleased to submit the Board of Directors' Report on the state of the Company's affairs for the year ended December 31, 2025, prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 5730-1970. This report is prepared having regard to the fact that the reader also has before him the Business Description Chapter as included in Part A of this Periodic Report (hereinafter: the "**Business Description Chapter**") and the financial statements for the reporting period.

1. The Company and its Business Environment

- 1.1. The Company was incorporated in 1997 as a private company limited by shares, and immediately thereafter issued shares to the public and became a public company, as defined in the Companies Law, 5759-1999 (hereinafter: the "**Companies Law**").
- 1.2. The Company's operations are conducted primarily through its subsidiary, Bet Shemesh Engines Ltd. (hereinafter: "**BSEL**") and its subsidiaries (hereinafter collectively: the "**Group**"), in two principal areas of activity:
 - (a) The Engine Parts Manufacturing segment;
 - (b) The Engines segment.
- 1.3. For details regarding the Group's segments and their results, see Sections 6, 8, and 9 of the Business Description Chapter.
- 1.4. For details regarding the general environment and the impact of external factors on operations, including the effects of the war, see Section 7 of the Business Description Chapter.

2. Frame Orders

- 2.1. The Group holds long-term framework agreements and other agreements against which assessments exist between the parties regarding anticipated orders (Frame Orders) (hereinafter: the "**Frame Orders**"). Based, inter alia, on these Frame Orders, the Group prepares its supply forecast and orders raw materials with long lead times and procures what is required to meet the projected production volumes. For further details, see Sections 8.4 and 9.3 of the Business Description Chapter.
- 2.2. As of December 31, 2025, the Group's total Frame Orders extend over a period of up to approximately 16 years and stand at approximately USD 3.2 billion, compared to USD 1.7 billion as of December 31, 2024. It is clarified that Frame Orders are not binding upon the customer to issue specific orders from within the said framework.

For further details regarding framework agreements signed during the reporting period, see Section 6 below.

The information regarding Frame Orders constitutes forward-looking information, as defined in the Securities Law, reflecting the current assessments and assumptions of Company management as of this date, based on various estimates that are inherently uncertain and may not materialize, or may materialize in a materially different manner, in whole or in part, due to, inter alia, factors beyond the Company's control, including factors within the control of customers and/or due to market conditions and the like.

For details regarding the Company's order backlog, see Sections 8.6 and 9.5 of the Business Description Chapter.



3. **Financial Position**

The following sets out the key items of the condensed consolidated financial position and the Company's explanations:

Summary of Consolidated Statements of Financial Position (in thousands of USD)			
	Year Ended 31 December 2025	Year Ended 31 December 2024	Explanations
Current assets	287,123	189,711	The increase stems from the impact of growth in the volume of operations, primarily in trade receivables and inventory including those of Turbine Standard (hereinafter: "TS").
Non-current assets	180,070	137,117	The increase is primarily attributable to intangible assets such as goodwill and customer relationships arising from the consolidation of TS per the valuation, and to capital expenditure investments.
Total assets	467,193	326,828	
Current liabilities	125,836	101,899	The increase is primarily from growth in contract liabilities and trade and other payables, partially offset by a decrease in short-term bank credit.
Long-term liabilities	42,656	31,603	Increase originating from the obligation to the minority in TS.
Equity	298,701	193,326	Increase stemming from the Company's profits for the period and a capital raise of approximately USD 63 million. See Section 6.7.3 below.
Total liabilities and equity	467,193	326,828	

- 3.1. The Company's working capital as of December 31, 2025 totaled approximately USD 161,287 thousand, compared to approximately USD 87,812 thousand as of December 31, 2024.
- 3.2. The value of inventory (excluding long-term inventory) as of December 31, 2025 totaled approximately USD 185,936 thousand, compared to approximately USD 136,734 thousand as of December 31, 2024.
- 3.3. Trade receivables as of December 31, 2025 totaled approximately USD 83,426 thousand, compared to approximately USD 45,147 thousand as of December 31, 2024. The increase in trade receivables is primarily due to the growth in sales volumes, including those of TS.
- 3.4. Trade payables as of December 31, 2025 totaled approximately USD 42,326 thousand, compared to USD 26,414 thousand as of December 31, 2024.
- 3.5. The current ratio as of December 31, 2025 totaled approximately 2.3, compared to approximately 1.9 as of December 31, 2024.
- 3.6. The average volume of short-term credit (including current maturities of long-term loans) in 2025 totaled approximately USD 44,334 thousand, compared to approximately USD 21,167 thousand in 2024. In the fourth quarter of 2025, the Company reduced its short-term credit, which stood at approximately USD 8,021 thousand as of December 31, 2025, compared to approximately USD 22,414 thousand as of December 31, 2024.
- 3.7. The average volume of long-term loans net of current maturities in 2025 totaled approximately USD 10,330 thousand, compared to approximately USD 18,273 thousand in 2024.
- 3.8. The total amount of guarantees provided by the Company to third parties as security as of December 31, 2025 totaled approximately USD 33,458 thousand, compared to approximately USD 13,006 thousand as of December 31, 2024.
- 3.9. The total net financial debt to banks as of December 31, 2025 totaled approximately USD



8,333 thousand, compared to approximately USD 35,778 thousand as of December 31, 2024.

- 3.10. The Company carried out a capital raise of approximately NIS 200 million (approximately USD 63 million) as detailed in Section 6.7.3 below.
- 3.11. Under material loans, the Company has undertaken to meet covenants that will be examined on the basis of the Company's consolidated, quarterly and annual financial statements over four consecutive quarters.

The Company is in compliance with all covenant conditions:

- (A) Tangible equity shall not fall below USD 80 million, and the equity-to-total-balance-sheet ratio shall not fall below 30%. As of December 31, 2025, tangible equity stood at approximately USD 251.6 million, and the equity-to-total-balance-sheet ratio stood at approximately 59.9%.
- (B) The Debt-to-EBITDA¹ ratio shall not exceed 4.5 at any time. As of December 31, 2025, the Debt-to-EBITDA ratio stood at 0.1.
- 3.12. The Company's financial position data as of December 31, 2025 includes assets and liabilities resulting from the completion of the acquisition of TS at the beginning of March 2025 and the valuation carried out by the Company as detailed below (see also Note 7 to the financial statements):

	\$ Thousands
Current assets	23,238
Non-current assets	29,663
Total assets	52,901
Current liabilities	37,217
Long-term liabilities	15,454
Equity	230
Total liabilities and equity	52,901

Equity is comprised of retained earnings of USD 1.9 million and a capital reserve in deficit (in respect of transactions with the minority) of USD 1.7 million.

The Company's results for the year ended December 31, 2025, include revenues and expenses as detailed below:

	\$ Thousands
Sales	26,496
Operating profit	3,904
Net profit	1,726
EBITDA	6,238
Minority interest in net profit	790

Operating profit includes amortization of an intangible asset as determined in the valuation in the amount of USD 1.7 million.

¹ "EBITDA" (unaudited and unreviewed): Operating profit adjusted for depreciation and amortization. This figure is included in the report due to the information it provides regarding profit from regular operations, adjusted for non-cash expenses.



4. Operating Results of the Company

4.1. Profit and Loss Analysis for the Year and Quarter (in USD thousands):

Summary of Consolidated Statements of Profit or Loss for the three-month period ended			
	31.12.2025	31.12.2024	Explanations
Sales	78,573	66,213	Growth in sales in both Company's operating segments, including TS operations. Quarter sales were impacted by the fire incident at Carmel Forge. See Section 6.7.2 below.
Gross profit	19,113	17,915	
Gross profit margin	24.3%	27.1%	Gross profit margin was affected primarily by the fire incident at Carmel Forge. See Section 6.7.2 below.
Operating profit	14,770	13,820	
Operating profit margin	18.8%	20.9%	
Net profit	15,425	10,115	Growth in net profit stems from growth in profit and a one-time tax recalculation as detailed below.
Net profit margin	19.6%	15.3%	
EBITDA	18,079	16,753	
EBITDA margin	23.0%	25.3%	

The increase in the Company's sales turnover compared to the corresponding period last year totaled approximately USD 12.4 million, representing growth of approximately 18.7%, originating from growth in activity, and includes approximately USD 1.0 million arising from price updates to customers due to price adjustments for changes in key input prices in various periods.

The fire incident at Carmel Forge (see Section 6.7.2 below) caused revenue loss in the reported quarter of approximately USD 7 million. The Company believes that its swift action to activate an alternative facility to the one that burned down at the Company's Bet Shemesh site, prevented significantly higher revenue loss and will assist in the recovery of sales volumes, so that over time the economic damage will be immaterial. The Company recorded in the other income line approximately USD 3.2 million in respect of expected compensation from the insurance company. The growth in net profit stems from the improvement in profit and a one-time tax recalculation arising from the adjustment of the charge mechanism in transactions between Israel and Serbia and the transition from the dollar-denominated tax calculation mechanism to a shekel-based calculation in the Israeli companies.



Condensed Consolidated Statements of Profit and Loss for the Year Ended December 31			
	2025	2024	2023
Sales	314,083	258,981	209,687
Gross profit	77,203	63,745	34,339
Gross profit margin	24.6%	24.6%	16.4%
Operating profit	56,228	48,270	88,372
Operating profit margin	17.9%	18.6%	42.1%
Net profit / (loss)	43,514	36,424	59,954
Net profit / (loss) margin	13.9%	14.1%	28.6%
EBITDA excl. real estate transaction gain	70,750	59,798	33,546
EBITDA margin excl. real estate transaction gain	22.5%	23.1%	16.0%

The increase in the Company's sales turnover compared to the corresponding period last year totaled approximately USD 55.1 million, representing growth of approximately 21.3%, originating from growth in activity, including USD 26.1 million arising from sales of TS after eliminating internal sales of USD 0.4 million, and includes approximately USD 9.1 million arising from price updates to customers due to price adjustments for changes in key input prices in various periods.

The Company's financing expenses in the reported period increased compared to the corresponding period last year by approximately USD 4.9 million, of which approximately USD 3 million is from the impact of exchange rates on shekel balance sheet balances.



4.2. Summary of Operating Results by Quarter and by Segment

The following is a summary of profit and loss statements on a quarterly basis for the year ended December 31, 2025:

Condensed Consolidated Statements of Profit and Loss — Quarterly (USD thousands)				
	3 Months Ended 10-12/25	3 Months Ended 7-9/25	3 Months Ended 4-6/25	3 Months Ended 1-3/25
Sales	78,573	84,668	76,887	73,955
Gross profit	19,113	19,851	18,758	19,481
Gross profit margin	24.3%	23.4%	24.4%	26.3%
Operating profit	14,770	14,326	13,081	14,051
Operating profit margin	18.8%	16.9%	17.0%	19.0%
Net profit / (loss)	15,425	10,062	7,230	10,797
Net profit margin	19.6%	11.9%	9.4%	14.6%
EBITDA	18,079	18,263	17,002	17,406
EBITDA margin	23.0%	21.6%	22.1%	23.5%

The operational turnover grew consistently throughout the year, and this was also expected to materialize in the fourth quarter, were it not for the fire incident at Carmel Forge, which also caused revenue loss of approximately USD 7 million, as stated above.

Operating profit and EBITDA margins were affected primarily by the Engine Parts segment's performance, while relative stability was maintained in the Engines segment's profitability margins.



The trend table above is used by the Company's Board of Directors for measurement and analysis purposes.


Summary of Consolidated Statements of Profit or Loss – Segment Breakdown (USD thousands)

	Three months ended Dec 31, 2025				Three months ended Dec 31, 2024			
	Engines Segment	Engine Parts Manufacturing Segment	Adjustments	Total	Engines Segment	Engine Parts Manufacturing Segment	Adjustments	Total
Sales	37,285	46,166	(4,878)	78,573	27,061	42,622	(3,470)	66,213
Operating profit / (loss)	8,462	6,762	(454)	14,770	7,201	7,118	(499)	13,820
Operating margin	22.7%	14.6%		18.8%	26.6%	16.7%		20.9%

Sales in the Parts Segment reflect the improving trend because of the recovery in the civil aviation industry. We expect continued growth and improved performance in this segment, driven by increased activity in efficient manufacturing processes, alongside significant challenges in the industry's supply chain, which may result in a more moderate growth rate compared to the high market demand.

The Engines Segment, consistent with reports during recent quarters, continues to realize business opportunities arising from increasing demand in its business environment, both in Israel and abroad (with emphasis on the defense market).

The information regarding the continuation of the recovery trend and the Company's ability to meet expected demand, alongside coping with ongoing challenges, constitutes forward-looking information as defined in the Securities Law, reflecting the current assessments and assumptions of the Company's management as of this date. Such assessments are inherently uncertain and may not materialize, or may materialize differently, as a whole or in part, inter alia due to factors beyond the Company's control, including factors under customers' control and/or market conditions and the like.

Summary of Consolidated Statements of Profit or Loss – Segment Breakdown (USD thousands)

	For the year ended December 31, 2025				For the year ended December 31, 2024			
	Engines Segment	Engine Parts Manufacturing Segment	Adjustments	Total	Engines Segment	Engine Parts Manufacturing Segment	Adjustments	Total
Sales	143,007	184,488	(13,412)	314,083	98,304	170,276	(9,599)	258,981
Operating profit / (loss)	35,357	23,616	(2,745)	56,228	28,281	21,238	(1,249)	48,270
Operating margin	24.7%	12.8%		17.9%	28.8%	12.5%		18.6%

For additional data by operating segments — see also Section 6 of Part A of this Periodic Report.



5. Liquidity and Sources of Financing

5.1. Liquidity

Summary of Consolidated Statements of Cash Flows (in thousands of USD) for the year ended December 31				
	2025	2024	2023	Company's Explanations re prior year
Cash flows from operating activities	30,177	35,466	18,633	Cash from operating activities stemming from the Company's profitability, which partially funded the increase in working capital, with emphasis on inventory (for continued growth) and trade receivables (reflecting the growth in activity).
Cash used in investing activities	(57,581)	(14,604)	56,479	Primarily used for the acquisition of Turbine Standard and continued capital expenditure investments.
Cash flows from (used in) financing activities	32,915	(21,130)	(70,541)	Cash flows from capital raise. See Section 6.7.3 below.
Cash and cash equivalents balance	5,613	102	370	

5.2. Sources of Financing

5.2.1. During the reporting period, the Company financed its operations from cash flows from operating activities. The Company also carried out a capital raise of approximately NIS 200 million (see Section 6.7.2 further below). The Company reduced its total net bank credit by approximately USD 27.4 million compared to December 31, 2024.

5.2.2. For details regarding trade receivables, see Section 3.3 above.

5.2.3. For details regarding long-term obligations to banking corporations, see Section 3.7 above.

5.2.4. For details regarding obligations to banks, see Sections 3.6 and 3.7 above.

5.2.5. For additional details regarding reportable credit and sources of financing, including financial covenants, see Section 17 of the Business Description Chapter.

5.2.6. The interest rates imposed on the Company, primarily on short-term credit, decreased during the reporting period (in the range of 5.0%–6.2%, compared to 5.7%–7.3% in the corresponding period last year).

The Company routinely examines its exposure to the effects of changes in interest rates, and in its assessment, changes in interest rates are not such as to affect its financial stability. A 1% change in the SOFR rate (the base rate of foreign currency credit that is not at a fixed interest rate) on average credit balances over the year is expected to increase financing expenses by approximately USD 670 thousand on an annualized basis.

With respect to the impact of exchange rates on the Company, in the Company's assessment as of this date, the impact of the dollar/shekel exchange rate on the Company's operating profit is estimated such that a change of 10 agorot (NIS) per dollar, based on a change versus the 2025 average, is expected to total approximately USD 2.0–2.5 million. The impact of the changes in the effective average exchange rate of the dollar for 2025 compared to the effective average exchange rate for 2024 on operating profit in 2025 resulted in an increase in dollar-denominated expenses of approximately USD 2.4 million. The Company estimates that the impact of the exchange rate on operating profit in 2026 is expected to increase such that a change of 10 agorot (NIS) per dollar will total approximately USD 2.5–3.0 million.

5.2.7. For additional details regarding inflation rates and their direct impact on the Company's results, see Section 7.8 of the Business Description Chapter.



- 5.2.8. For details regarding trade receivables and trade payables, see Sections 15.3 and 15.4 of the Business Description Chapter.

The Company's assessments regarding the impact of changes in interest rates and inflation on its financial position, operating results, cash flows, the impact of interest rates on its financial stability, financing expenses, and effects on operating profit, constitute forward-looking information, as defined in the Securities Law. This assessment may not materialize, in whole or in part, or may materialize in a materially different manner from that anticipated, due to, inter alia, events beyond the Company's control.

5.3. **Option and Share Grants During the Reporting Period and After the Balance Sheet Date**

During the reporting period and after the balance sheet date, options (non-tradable) were granted to employees and office holders of the Group pursuant to the Company's option plan. The grants were made following approval by the Company's Board of Directors, and in the case of office holders, in accordance with the recommendation of the Compensation Committee. The Company also granted shares to institutional investors as follows:

Expense Date	Number of Options/Shares	Grantees	Vesting Terms
January 27, 2025	42,750	Company employees and additional Group employees	Vesting from December 29, 2024 (Reference: 2024-01-627751)
December 7, 2025	10,500	Two employees of the Company and subsidiaries wholly owned by it, who are not office holders, and service providers who are not office holders	Private placement report that is not material and not unusual, dated November 27, 2025 (Reference: 2025-01-093369)

6. **Corporate Governance Aspects**

6.1. **Donations**

The Company has no donations policy and in 2025 there were no donations in a material amount. Notwithstanding, the Company places great importance on contributing to the community and operates through various frameworks, including the operation of a vocational training school in the Company's manufacturing area of activity, support for employees' families and the community during wartime, joint activities with associations that support at-risk youth, and more.

6.2. **Disclosure Regarding Directors with Accounting and Financial Expertise**

For details regarding directors with accounting and financial expertise, see Regulation 26 in the Additional Information section of this Periodic Report.

6.3. **Independent Directors**

As of the date of this report, no provision regarding the proportion of independent directors has been set in the Company's articles of association, in accordance with the provisions of the First Addendum to Companies Law.

6.4. **Details Regarding the Internal Auditor of the Company**

Name of Auditor: CPA Doron Cohen

Date of Commencement of Term: March 21, 2017

Auditor's Qualifications: Bachelor's degree in Business Administration, specializing in Accounting. Certified Public Accountant. Certified Internal Auditor. For further details, see Regulation 26 of the Additional Information report.

**Additional Details:**

On March 21, 2017, CPA Doron Cohen, a partner at the accounting firm Fahn Kanne, was appointed as the Company's Internal Auditor. The Auditor does not hold securities of the Company or a related entity. The Auditor is an external service provider and does not fulfill any additional roles at the Company other than his role as Internal Auditor.

To the best of the Company's knowledge, the Internal Auditor complies with the provisions of Section 146(b) of the Companies Law and the provisions of Sections 3(a) and 8 of the Internal Audit Law, 5752-1999 (hereinafter: the "**Internal Audit Law**").

Appointment Method: The Company's Board of Directors approved the appointment of the Internal Auditor on March 21, 2017, following approval by the Audit Committee on March 18, 2017. The reasons for approving the appointment were primarily the Internal Auditor's experience and professionalism, as well as the reasonableness of the terms of his offer, taking into account, inter alia, the type, size, scope and complexity of the Company's operations.

Organizational Superior of the Auditor: The Chairman of the Board of Directors of the Company was designated as the organizational superior of the Auditor (in accordance with Section 148 of the Companies Law). The coordinator of the Internal Auditor's activities at the Company is the CFO.

Work Plan: The Auditor's work plan is multi-year. The Company, the Audit Committee, and the Internal Auditor have prepared a list of topics which in their assessment constitute possible risk focal points in the Company and which require audit by the Internal Auditor, based on a risk survey. The Internal Auditor submits to the Audit Committee and the Board of Directors a proposed annual work plan, including a number of topics from this list or other topics which in his view require examination. The Company's Board of Directors approves the work plan based on topics that arose in the risk survey, in accordance with the Audit Committee's recommendation. The Internal Auditor has discretion to deviate from the work plan, subject to Audit Committee approval. It should be noted that no material changes were made to the work plan, the manner in which the content of the work plan is determined, and/or the reliance on the risk assessment survey.

Periodically, as determined by management and/or the Audit Committee, the subject of related-party transactions is also examined, in which an audit of entities constituting material holdings in the Company is expressed.

The audit plan includes an audit of the subsidiary, Bet Shemesh Engines Ltd. and its subsidiaries. The plan addresses activities conducted both in Israel and abroad.

During the reporting period, related-party transactions were not audited.

Scope of Engagement: The Internal Auditor was engaged in 2025 for a scope of 370 working hours.

The scope of the Internal Auditor's engagement was determined by the Board of Directors, taking into account, inter alia, consultation with the Internal Auditor and following discussion in the Audit Committee, and having regard to the scopes customary at similar companies in the industry.

Professional Standards: The Internal Auditor, per his declaration which satisfied the Board of Directors, conducts the internal audit in accordance with the professional standards customarily accepted as stated in Section 4(b) of the Internal Audit Law, 5752-1992, and meets the requirements of the professional standards.

Access to Information: The Internal Auditor has been granted free access as stated in Section 9 of the Internal Audit Law, 5752-1992, including continuous and direct access to the Company's information systems, including financial data.

Dates of Submission of Audit Reports: In the reporting year, 2 reports were submitted (in May and November 2025) on the OT cybersecurity audit process and production at the subsidiary Carmel Forge. Total working hours for these reports: 370 hours.

Board of Directors' Assessment of the Internal Auditor's Activity: The Board of Directors



believes that the scope, nature and continuity of the Internal Auditor's activity and work plan are reasonable in the circumstances and are sufficient to achieve the objectives of the internal audit in the Company.

Remuneration: The method and scope of remuneration is derived from the audit hours set in the annual audit plan by the Company's Board of Directors. The Internal Auditor's fee in respect of audit matters relating to 2025 totaled approximately NIS 74 thousand. In the Board of Directors' opinion, the scope and nature of the Internal Auditor's activity are sufficient to achieve the Company's internal audit objectives, and that the impact of the remuneration to which the Internal Auditor is entitled on the exercise of his professional judgment is negligible, given that the remuneration is not dependent on the audit results.

6.5. **Details Regarding the External Auditor**

The fees payable to the accounting firms of the various companies in the Group, as detailed below, are for audit services to the Group, audit-related services, and tax services for the Company.

The total fees (in dollars) of the Certified Public Accountants in recent years are as follows:

Company Name	Auditing CPA	Details	2025 Fee (USD)	2024 Fee (USD)
Group companies	Somekh Chaikin KPMG	Audit services and audit-related tax services for Group companies in Israel	210,744	189,517
		Audit services and audit-related tax services for Group companies abroad	55,000	
		Tax and other services	144,409	121,615
LPO	KPMG LLC (USA)	Other services: due diligence	-	188,000
	BDO	Audit and tax services	24,289	15,225
		Other services	7,712	6,600

The auditor's fee was determined by negotiation between the Company's management and the auditing accountant and approved by the Company's Board of Directors, in accordance with the recommendation of the Committee for Examination of Financial Statements, and was set in accordance with the scope and nature of the auditing accountants' work, based inter alia on the Company's past experience and prevailing market terms, and after the Company's management received proposals from a number of accountants. The fee is fixed in the local currency of the audited company.

6.6. **Critical Accounting Estimates**

For details regarding critical accounting estimates, see Note 2 to the financial statements for 2025 attached to this Periodic Report.

**6.7. Events During the Reporting Period and After the Balance Sheet Date**

- 6.7.1. For events that occurred during the first, second and third quarters of 2025, see Section 6.7 of the Company's Board of Directors' Report attached to the Q1 2025 report, the Q2 2025 report, and the Q3 2025 report, published on May 29, 2025 (reference: 2025-01-038647), August 17, 2025 (reference: 2025-01-060885) and November 27, 2025 (reference: 2025-01-093226), respectively, incorporated herein by reference.
- 6.7.2. On October 19, 2025, the Company announced that on October 17, 2025, a fire broke out at the annealing facility of Carmel Forge in Tirat HaCarmel. For further details, see the Company's Immediate Report of October 19, 2025 (reference: 2025-01-076522), incorporated herein by reference.
- 6.7.3. On December 29, 2025, the Company's Board of Directors resolved to carry out a capital raise of approximately NIS 200 million (the capital raise was intended to accelerate growth plans, investments and acquisitions), in consideration for the allotment of 296,300 ordinary shares of the Company. Long-term savings institutions participated in the private placement, and with the exception of Menorah Mivtachim Sel Menioth, Menorah Mivtachim Insurance, Phoenix and Mor, which are interested parties as defined in the Securities Law, 5728-1968, and interested parties in the Company as defined in Section 270(5) of the Companies Law, by virtue of their holdings, the other allottees are additional leading institutional investors who are unrelated third parties to the Company and, to the best of the Company's knowledge, prior to and following the private placement, are not and will not be interested parties or interested persons in the Company. For further details, see the Company's Immediate Report of December 30, 2025 (reference: 2025-01-104740), incorporated herein by reference.
- 6.7.4. On January 1, 2026, the shareholders' meeting approved the appointment of Ms. Tirtza Ottolenghi Florentine as an external director of the Company for a first term of three years commencing from that date, and also approved her remuneration, including insurance and indemnification arrangements.
- 6.7.5. From the beginning of January 2026 through January 12, 2026, Bet Shemesh Engines Ltd., the Company's subsidiary, received orders from a foreign air force — an air force of significant size — for the overhaul of F100 engine cores (hereinafter: "**BSEL**" and the "**Customer**", respectively). As of this date, the volume of orders is approximately USD 21.5 million (hereinafter: the "**Orders**"). In the Company's assessment, the volume of the described activity may grow to as much as approximately USD 30 million. It is clarified that the aforementioned growth forecast is an estimate only and is not binding upon the Customer. For further details, see the Company's Immediate Report of January 13, 2026 (reference: 2026-01-005495), incorporated herein by reference.
- 6.7.6. On February 22, 2026, the Company announced that the Israel Securities Authority resolved to extend the period for the offering of securities pursuant to the Company's shelf prospectus to February 7, 2027. For further details, see the Company's Immediate Report of February 22, 2026 (reference: 2026-01-016680), incorporated herein by reference.
- 6.7.7. On March 9, 2026, the Company announced that its subsidiary, Bet Shemesh Engines Ltd., entered into an expansion of existing engagements with an existing customer in the Engine Parts segment, an international manufacturer in the aviation and engines field. Under the expansion, new items were added to some of the world's most advanced engine programs, item prices were updated, and the Company's market share to be supplied was increased. The product supply period is until end-2032 (hereinafter in this section: the "**Period**"). The value



of the expansion and other matters agreed with the customer is estimated at approximately USD 80 million over the Period.

It is clarified that the aforementioned growth forecast is an estimate only and is not binding upon the customer. For further details, see the Company's Immediate Report of March 9, 2026 (reference: 2026-01-020596), incorporated herein by reference.

- 6.7.8. On March 16, 2026, the Company announced that JetCat Defense Inc. (hereinafter: "JetCat Defense") received an order from CoAspire, a U.S. defense and aerospace company specializing in the development, design and manufacture of cruise missiles under defense programs for the U.S. Government and other defense entities. The order is in the amount of approximately USD 10.2 million for supply during 2026, subject to the completion of a certification process expected to take place within the next three months. In addition, the Company estimates that further orders are expected to be received from this customer beginning from 2027. For further details, see the Company's Immediate Report of March 16, 2026 (reference: 2026-01-022785), incorporated herein by reference.
- 6.7.9. On March 24, 2026, the Company's Board of Directors approved publication of an offering memorandum, in accordance with the Securities Regulations (Details of Offering Memorandum for Employee Securities Offerings), 5760-2000, for the purpose of allotting, during the term of the memorandum, up to 88,430 options exercisable into up to 88,430 shares, for no consideration, to existing employees of the Company and associated companies, pursuant to the memorandum and the option plan. For further details, see the offer memorandum that is expected to be published shortly after the publication of this report.
- 6.7.10. On March 24, 2026, the Company's Board of Directors resolved to approve a non-material and non-exceptional allotment of 1,000 options to a grantee who is a service provider and not an employee. A non-material and non-exceptional private placement report will be published shortly after the publication of this report.
- 6.7.11. At the Company's Board of Directors meeting of March 24, 2026, the Board of Directors resolved, in accordance with the Compensation Committee's recommendation, to convene a special shareholders' meeting with on its agenda a monthly salary increase for the Company's CEO of approximately NIS 9 thousand per month (from NIS 101 thousand to NIS 110 thousand per month). For full details regarding the convening of the meeting and the matter on its agenda, see the detailed meeting convening report as required by the regulations, with the meeting date to be set by Company management.
- 6.7.12. Other than as stated in the sections above, no material events occurred in the period from the balance sheet date (December 31, 2025) to the approval date of this report (March 24, 2026).

The foregoing information in Sections 6.7.5, 6.7.7 and 6.7.8 regarding the Company's activities, future dates and projected revenues constitute forward-looking information, as defined in the Securities Law, which is information relating to future events whose materialization is not certain. The forward-looking information referred to above is based on information or estimates available to the Company, BSEL or received from third parties and may not materialize as a result of factors that are not dependent on the Company, such as regulatory changes, various regulatory factors, restrictions on the Company's activity in its areas of operation, customer requirements, the occurrence of any of the Company's risk factors as described in this Periodic Report, etc.



1. Valuations

The following table sets out a material valuation used for the purpose of determining the value of data in the financial statements (in accordance with Regulation 8b(9) of the Securities Regulations (Periodic and Immediate Reports), 5730-1970):

Subject of valuation	Purchase Price Allocation (PPA) Turbine Standard Ltd. %
Timing of valuation	28/02/2025
Value of the subject of the valuation (tangible and intangible assets)	USD 41.164 million
Name of appraiser, education and experience	The work was performed by a team headed by CPA Zohar Avraham, partner at S.K.A. Economic Consulting Ltd. CPA Zohar Avraham holds a BA from the University of Haifa and has over 20 years of experience in economic and accounting consulting for a wide range of companies in Israel and abroad.
Dependence on the party commissioning the valuation	No dependence exists.
Indemnification agreements	The Company will indemnify the appraiser for reasonable expenses incurred or required to be paid by the appraiser for legal advice and representation and for any amount paid to a third party. The total financial liability of the appraiser towards the Company shall be limited to an amount equal to 3 times the total fee for the engagement.
Valuation model used by the appraiser	Purchase cost allocation based on individual assessment of fair value.
Key assumptions underlying the valuation	DCF model and MPEEM model.
Discount rate (or WACC)	14.5%
Growth rate	2% long-term
Terminal value as a percentage of total value determined in the valuation (Terminal Value)	62%
Standard deviation	N/A
Prices used as a basis for comparison	N/A
Number of bases for comparison	N/A

The Board of Directors expresses its appreciation to employees and managers for their dedicated work and contribution to the advancement of the Company's business.

 Gillon Beck
 Chairman of the Board

 Ram Drori
 Chief Executive Officer

Date: March 24, 2026

Bet Shemesh Engines Holdings (1997) Ltd.

PART C — FINANCIAL STATEMENTS

Bet Shemesh Engines Holdings (1997) Ltd.

Consolidated Financial Statements

As of December 31, 2025

Bet Shemesh Engines Holdings (1997) Ltd.

Consolidated Financial Statements as of December 31, 2025

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KPMG Somekh Chaikin
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Independent Auditors' Report To the Shareholders of Bet Shemesh Engines Holdings (1997) Ltd.

Opinion

We have audited the consolidated financial statements of Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the "Company"), which comprise the consolidated statement of financial position as of December 31, 2025, and the consolidated statements of profit or loss, other comprehensive income, changes in equity, and cash flows for the year ended December 31, 2025, and the notes to the consolidated financial statements, including the principal accounting policies.

We did not audit the financial statements of consolidated companies whose assets included in the consolidated statements of financial position constitute approximately 5% of total consolidated assets as of December 31, 2025, and whose revenues included in the consolidated statements of profit or loss constitute approximately 1.5% of total consolidated revenues for the year ended December 31, 2025. The financial statements of those companies were audited by other auditors whose reports were furnished to us, and our opinion, insofar as it relates to the amounts included in respect of those companies, is based on the reports of the other auditors.

In our opinion, based on our audit and on the reports of other auditors, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position as of December 31, 2025, and the consolidated financial results and consolidated cash flows for the year ended December 31, 2025, in accordance with International Financial Reporting Accounting Standards (IFRS Accounting Standards) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010.

Basis for Opinion

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), 5733-1973. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company and its consolidated subsidiaries in accordance with the applicable legal provisions in Israel regarding independence and conflicts of interest of auditors. Additionally, we have fulfilled our other ethical obligations in accordance with the Auditors' Law, 5715-1955, and the regulations thereunder. We believe that the audit evidence we have obtained, including the reports of other auditors, is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

The key audit matters described below are those matters that were communicated, or were required to be communicated, to the Company's Board of Directors and that, in our professional judgment, were of most significance in the audit of the consolidated financial statements for the current period. These matters include, among others, any matter that: (1) relates, or may relate, to material items or disclosures in the consolidated financial statements and (2) involved our professional judgment that was challenging, subjective or especially complex. These matters were addressed in the context of our audit on the consolidated financial statements as a whole, and in forming our opinion thereon. The communication of these matters below does not alter our opinion on the consolidated financial statements as a whole, nor do we provide through such communication a separate opinion on these matters or on the accounts or disclosures to which they relate.



Inventory Write-Downs

Why the Matter was Determined to be a Key Audit Matter

As of December 31, 2025, the inventory balance on the statement of financial position amounts at approximately USD 186,247 thousand. As described in Note 3 to the consolidated financial statements, inventory items are written down in accordance with the policy established by Company management and management's estimates. The process of estimating inventory write-down amounts is based on significant estimates involving uncertainties, and subjective assessments regarding the realization of inventory and projected revenues from inventory realization.

Accordingly, the audit of the inventory write-down estimate required us to exercise judgment and apply knowledge and experience in order to examine the reasonableness of the assumptions and data used by management in determining the estimate.

Accordingly, we identified the subject of inventory write-downs as a key audit matter.

How the Key Audit Matter was Addressed

The following are the principal procedures we performed in connection with this key audit matter in the course of our audit:

We examined the inventory write-down calculation process and the design, implementation and operating effectiveness of certain internal controls related to the determination of the write-down estimate. In addition, we performed substantive procedures to examine the inventory write-down estimate. These procedures included, among others:

- Examination of the methodology for establishing the inventory write-down recording policy.
- Examination of the reasonableness of the assumptions used to record the write-down.
- Performance of sensitivity analyses management's assumptions in determining the write-down policy, in order to assess the materiality of possible changes relative to management's assumptions.
- Verification of the completeness and accuracy of the information and data used to determine the write-down amounts.
- Performance of an independent calculation in respect of a sample of items for the purpose of examining the reasonableness of the actual write-down amount pursuant to the established write-down policy.

Revenue Recognition from Projects

Why the Matter was Determined to be a Key Audit Matter

Revenues of the Engines segment in the 2025 financial statements in the amount of USD 143,007 thousand include revenues from long-term engineering projects. As described in Note 3 to the consolidated financial statements, the Company recognizes revenues from long-term engineering projects over time, in accordance with the output method based on engineering progress.

The calculation of revenue recognition from engineering projects according to the rate of engineering progress requires the exercise of judgment, the formulation of estimates, and assumptions regarding the percentage of completion of the projects.

Accordingly, the audit of the revenue recognition estimates from projects required us to exercise judgment and apply knowledge and experience in order to examine the reasonableness of the assumptions and estimates used by management in determining the percentage of completion.

Accordingly, we identified revenue recognition from projects as a key audit matter.



How the Key Audit Matter was Addressed

The following are the principal procedures we performed in connection with this key audit matter in the course of our audit:

We examined the revenue calculation process and the design, implementation and operating effectiveness of certain internal controls related to the revenue recognition process from projects, including controls over the percentage of completion estimate. In addition, we performed substantive procedures to examine the revenue recognition estimate. These procedures included, among others:

- Examination of the appropriateness of the total expected revenues from projects against signed agreements.
- Conducting inquiries with the Company's project engineers and obtaining data from them regarding the execution stages of the projects, with reference to the relative weight of each stage in the execution of the project.
- Examination of percentage of completion calculations based on execution stages as predefined by the Company's engineers and in accordance with the actual project progress up to the financial statement date.
- Obtaining opinions from the Company's project engineers detailing the execution stages of the projects and determining the percentage of completion accordingly.
- In order to examine the reasonableness of the assumptions and estimates used by management in determining the percentage of completion, we performed a comparison of profitability rates in the projects relative to segment profitability and relative to similar projects, as well as a comparison of progress stages against the milestones agreed with the customer.
- In respect of a number of significant execution stages in the projects, we performed a comparison of actual execution in accordance with the progress stages in the projects against various corroborating evidence such as reports to the customer and engineering reports.

Responsibilities of the Board of Directors and Management for the Consolidated Financial Statements

The Board of Directors and management are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Accounting Standards (IFRS Accounting Standards) and the provisions of the Securities Regulations (Annual Financial Statements), 5770-2010; and for such internal controls as the Board of Directors and management determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors and management are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern, and using the going concern basis of accounting, unless the Board of Directors and management intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but it is not a guarantee that an audit conducted in accordance with generally accepted auditing standards in Israel will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit conducted, including reliance on other auditors, in accordance with generally accepted auditing standards in Israel, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks,



and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material mistake resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentation, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors and management.
- Conclude on the appropriateness of the use by the Board of Directors' and management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidation of the financial statements, including verification that the accounting principles applied in the financial statements audited by other auditors are consistent with those adopted by the Company, that the reporting principles under which the statements audited by other auditors were prepared are consistent with the laws and mandatory guidelines applicable to the Company, and that all data required for consolidation has been appropriately reflected in the consolidated financial statements.

We communicate with the board of directors and management, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during the audit.

We also provide the Board of Directors and management with a statement that we have complied with the relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where relevant, the safeguards applied to eliminate identified threats to our independence.

From the matters communicated, or required to be communicated, with the Board of Directors and management, we determined the matters that were of most significance in the audit of the financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter.

Reference Paragraph

We have also audited, in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "An Audit of Components of Internal Control over Financial Reporting", the Company's components of internal control over financial reporting as of December 31, 2025, and our report dated March 24, 2026 included an unqualified opinion on the effective maintenance of those components.

The engagement partner of the audit resulting in this independent auditor's report is Nechama Shofnos.

Somekh Chaikin
Certified Public Accountants
Jerusalem
March 24, 2026



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02 531 2000

Auditors' Report to the Shareholders of Bet Shemesh Engines Holdings (1997) Ltd.

Regarding the Audit of Internal Control Components over Financial Reporting in accordance with Regulation 9b(c) of the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited internal control components over financial reporting of Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the "Company") as of December 31, 2025. These control components were determined as explained in the following paragraph. The Board of Directors and management of the Company are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of internal control over financial reporting attached to the periodic report for the above date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

Audited components of internal control over financial reporting were determined in accordance with Auditing Standard (Israel) 911 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" (hereinafter: "Auditing Standard (Israel) 911"). These components are: (1) entity-level controls, including controls over the financial reporting preparation and closing process and general information technology controls; (2) controls over the procurement process; (3) controls over the inventory process; (4) controls over the revenue process (all of the foregoing are hereinafter referred to collectively as the "Audited Control Components").

We conducted our audit in accordance with Auditing Standard (Israel) 911. This standard requires us to plan and perform the audit with the objective of identifying the Audited Control Components and obtaining reasonable assurance as to whether these control components are implemented effectively in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the Audited Control Components, assessing the risk of a material weakness in the Audited Control Components, and examining and evaluating the design and operating effectiveness of those control components based on the assessed risk. Our audit, with respect to those control components, also included performing such other procedures as we considered necessary in the circumstances. Our audit referred only to the Audited Control Components, as distinct from internal control over all material processes in relation to financial reporting, and therefore our opinion relates solely to the Audited Control Components. Furthermore, our audit did not address the reciprocal effects between the Audited Control Components and those that were not audited, and therefore our opinion does not take into account such possible effects. We believe that our audit provides an appropriate basis for our opinion in the context described above.

Due to inherent limitations, internal control over financial reporting in general, and components thereof in particular, may not prevent or detect mistakes. Furthermore, projections of any evaluation of current effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective Audited Control Components as of December 31, 2025.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2025 and for the year ended on that date, and our report dated March 24, 2026 included an unmodified opinion on those financial statements.

Somekh Chaikin
Certified Public Accountants
Jerusalem
March 24, 2026



KPMG Somekh Chaikin, an Israeli partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Financial Position

		As of December 31	
		2025	2024
	Note	USD Thousands	USD Thousands
CURRENT ASSETS			
Cash and cash equivalents		5,613	102
Trade receivables and contract assets	4	83,426	45,147
Other receivables and debit balances	5	12,148	7,728
Inventories	6	185,936	136,734
Total current assets		287,123	189,711
<u>NON-CURRENT ASSETS</u>			
Contract costs and long-term receivables	21B	17,226	15,333
Long-term inventories	6	311	1,030
Deferred tax assets	16	-	214
Property, plant and equipment	9	137,779	119,346
Intangible assets	10	24,082	630
Employee benefit assets	15	422	564
Long-term loans	31	250	-
Total non-current assets		180,070	137,117
TOTAL ASSETS		467,193	326,828
<u>CURRENT LIABILITIES</u>			
Credit from banking corporations and other credit providers	11	1,126	14,949
Current maturities of loans from banking corporations	11	6,895	7,465
Trade and other payables	12	42,326	26,414
Other payables and credit balances	13	22,569	19,939
Contract liabilities	17	36,194	19,954
Employee benefit liabilities	15	16,726	13,178
Total current liabilities		125,836	101,899
<u>NON-CURRENT LIABILITIES</u>			
Loans from banking corporations	11	7,031	13,927
Employee benefit liabilities	15	3,461	2,870
Contract liabilities	17	10,839	7,111
Lease liabilities	11	4,089	341
Deferred tax liabilities	16	6,514	7,354
PUT option	7	10,722	-
Total non-current liabilities		42,656	31,603
<u>EQUITY</u>			
Share capital	18	-	2,561
Share premium		121,823	55,707
Capital reserves		3,102	4,505
Retained earnings		174,723	131,513
Shares held by a consolidated company		(1,017)	(1,017)
Equity attributable to Company shareholders		298,631	193,269
Non-controlling interests		70	57
Total equity		298,701	193,326
TOTAL LIABILITIES AND EQUITY		467,193	326,828

Gillon Beck
Chairman of the Board

Ram Drori
Chief Executive Officer

Dov Feldman
Chief Financial Officer

Date of approval of the financial statements: March 24, 2026

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Profit or Loss

		For the Year Ended December 31		
		2025	2024	2023
	Note	USD Thousands	USD Thousands	USD Thousands
Revenue from sales and work performed	21	314,083	258,981	209,687
Cost of sales and processing	22	236,880	195,236	175,348
Gross profit		<u>77,203</u>	<u>63,745</u>	<u>34,339</u>
Selling and marketing expenses	23	8,631	5,038	4,870
General and administrative expenses	24	15,171	10,402	7,959
Other expenses	25	679	690	19,492
Other income	26	(3,506)	(655)	(86,354)
Operating profit		<u>20,975</u>	<u>15,475</u>	<u>(54,033)</u>
		56,228	48,270	88,372
Finance income	27	1,430	1,760	1,910
Finance expenses	28	(9,637)	(5,093)	(8,482)
Profit before income tax		<u>48,021</u>	<u>44,937</u>	<u>81,800</u>
Income tax expense	16	(4,507)	(8,513)	(21,846)
Net profit for the year		<u>43,514</u>	<u>36,424</u>	<u>59,954</u>
Attributable to:				
Company shareholders		42,711	36,413	59,935
Non-controlling interests		803	11	19
		<u>43,514</u>	<u>36,424</u>	<u>59,954</u>
Basic earnings per ordinary share of NIS 1 par value attributable to Company shareholders (in dollars)		<u>4.89</u>	<u>4.23</u>	<u>7.08</u>
Diluted earnings per ordinary share of NIS 1 par value attributable to Company shareholders (in dollars)		<u>4.75</u>	<u>4.14</u>	<u>6.97</u>

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Other Comprehensive Income

	For the Year Ended December 31		
	2025	2024	2023
	USD Thousands	USD Thousands	USD Thousands
Net profit for the year	43,514	36,424	59,954
Other comprehensive income			
Items of other comprehensive income that will not be reclassified to profit or loss, net of tax			
Remeasurements of defined benefit plan, net of tax	499	566	324
Amounts that will be reclassified subsequently to profit or loss, net of tax			
Effective portion of change in fair value of cash flow hedging instruments	(424)	391	484
Other comprehensive income for the year, net of tax	75	957	808
Total comprehensive income for the year	43,589	37,381	60,762
Total comprehensive income for the year attributable to:			
Company shareholders	42,786	37,370	60,743
Non-controlling interests	803	11	19
	43,589	37,381	60,762

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Changes in Equity

	Share capital	Share premium	Cash flow hedge reserve	Share- based payment reserve	Transactions with minority reserve	Retained earnings	Shares held by consolidated company	Non- controlling interests	Total
	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands
For the year ended December 31, 2025:									
Balance at January 1, 2025	2,561	55,707	667	3,838	-	131,513	(1,017)	57	193,326
Non-controlling interests from business combination	-	-	-	-	-	-	-	8,233	8,233
Net profit for the year	-	-	-	-	-	42,711	-	803	43,514
Other comprehensive income (loss) for the year, net of tax	-	-	(424)	-	-	499	-	-*	75
Share issuance	-	62,021	-	-	-	-	-	-	62,021
Settlement of PUT options on non-controlling interests	-	-	-	-	(1,699)	-	-	(9,023)	(10,722)
Share-based payment	-	-	-	2,190	-	-	-	-*	2,190
Exercise of options	-	1,534	-	(1,470)	-	-	-	-	64
Cancellation of par value	(2,561)	2,561	-	-	-	-	-	-	-
Total equity at December 31, 2025	-	121,823	243	4,558	(1,699)	174,723	(1,017)	70	298,701

* Amount less than USD 1 thousand

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Changes in Equity

	Share capital	Share premium	Cash flow hedge reserve	Share- based payment reserve	Retained earnings	Shares held by consolidated company	Non- controlling interests	Total
	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands
For the year ended December 31, 2024:								
Balance at January 1, 2024	2,519	54,083	276	3,879	94,534	(1,017)	46	154,320
Net profit for the year	-	-	-	-	36,413	-	11	36,424
Other comprehensive income for the year, net of tax	-	-	391	-	566	-	-*	957
Share-based payment	-	-	-	1,625*	-	-	-	1,625
Exercise of options	42	1,624	-	(1,666)	-	-	-	-
Total equity at December 31, 2024	<u>2,561</u>	<u>55,707</u>	<u>667</u>	<u>3,838</u>	<u>131,513</u>	<u>(1,017)</u>	<u>57</u>	<u>193,326</u>

* Amount less than USD 1 thousand

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Changes in Equity

	Share capital	Share premium	Cash flow hedge reserve	Share- based payment reserve	Retained earnings	Shares held by consolidated company	Non- controlling interests	Total
	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands
For the year ended December 31, 2023:								
Balance at January 1, 2023	2,505	53,981	(208)	3,121	79,493	(1,017)	29	137,904
Net profit for the year	-	-	-	-	59,935	-	19	59,954
Other comprehensive income for the year, net of tax	-	-	484	-	324	-	-*	808
Share-based payment	-	-	-	874	-	-	-*	874
Exercise of options	14	102	-	(116)	-	-	-	-
	2,519	54,083	276	3,879	139,752	(1,017)	48	199,540
Dividend to shareholders	-	-	-	-	(45,218)	-	(2)	(45,220)
Total equity at December 31, 2023	2,519	54,083	276	3,879	94,534	(1,017)	46	154,320

* Amount less than USD 1 thousand

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Cash Flows

	For the Year Ended December 31		
	2025	2024	2023
	USD Thousands	USD Thousands	USD Thousands
<u>Cash flows from operating activities</u>			
Net profit for the year	43,514	36,424	59,954
Adjustments required to present cash flows from operating activities - Appendix A	(13,337)	(958)	(41,321)
Cash flows from operating activities	30,177	35,466	18,633
<u>Cash flows from (used in) investing activities</u>			
Purchase of property, plant and equipment	(23,951)	(15,210)	(5,544)
Investment grant received	485	-	-
Proceeds from disposal of property, plant and equipment	372	447	178
Proceeds from sale of real estate held for sale	-	-	82,903
Tax payments on sale of real estate held for sale	-	-	(17,881)
Expenses related to sale of real estate held for sale	(1,533)	-	(3,293)
Loans granted to investee company	(250)	-	-
Acquisition of subsidiary net of cash acquired	(32,896)	-	-
Interest received	192	159	116
Cash flows from (used in) investing activities	(57,581)	(14,604)	56,479
<u>Cash flows from (used in) financing activities</u>			
Proceeds from share issuance	62,021	-	-
Dividend paid	-	-	(45,220)
Short-term credit from banking corporations, net	(15,410)	(5,003)	(9,230)
Repayment of long-term loans	(7,465)	(12,136)	(10,396)
Interest paid	(5,386)	(3,351)	(5,148)
Repayment of principal of lease liabilities	(845)	(640)	(547)
Cash flows from (used in) financing activities	32,915	(21,130)	(70,541)
Increase (decrease) in cash and cash equivalents	5,511	(268)	4,571
<u>Cash and cash equivalents at beginning of year</u>	<u>102</u>	<u>370</u>	<u>(4,201)</u>
Cash and cash equivalents at end of year	5,613	102	370

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.
Consolidated Statements of Cash Flows

	For the Year Ended December 31		
	2025	2024	2023
	USD Thousands	USD Thousands	USD Thousands
<u>Appendix A – Adjustments required to present cash flows and cash equivalents from operating activities</u>			
Income and expenses not involving cash flows			
Depreciation and amortization	14,522	11,353	10,801
Income tax expense	4,507	8,513	21,567
Capital loss (gain) on disposal of property, plant and equipment	(316)	27	(63,893)
Finance expenses, net	6,577	2,768	5,390
Share-based payment transactions	2,190	1,625	874
Total income and expenses not involving cash flows	27,480	24,286	(25,261)
Changes in assets and liabilities			
Increase in contract costs and long-term receivables	(4,195)	(1,886)	(2,371)
Increase in trade receivables and contract assets	(34,020)	(6,170)	(17,647)
Increase in other receivables and debit balances	(4,040)	(75)	(780)
Increase in inventories	(33,083)	(21,863)	(13,902)
Decrease (increase) in long-term inventories	719	(24)	(701)
Increase (decrease) in trade and other payables	15,569	(484)	7,333
Increase (decrease) in other payables and credit balances	(800)	(4,738)	277
Change in vacation provision	710	490	277
Change in long-term employee benefit assets	528	415	510
Change in long-term employee benefit liabilities	820	290	302
Increase in contract liability	16,975	8,801	10,642
Total changes in assets and liabilities	(40,817)	(25,244)	(16,060)
	(13,337)	(958)	(41,321)
<u>Appendix B – Material non-cash transactions:</u>			
Purchase of property, plant and equipment on credit	1,624	3,597	570
<u>Appendix C – Cash taxes:</u>			
Tax payments	3,416	6,472	18,160

The notes to the consolidated financial statements form an integral part thereof.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 1 - General

A. The Reporting Entity:

Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the "Company" or "BSEL") was incorporated in Israel on November 2, 1997. Its principal place of business is located in the Western Industrial Zone of Bet Shemesh.

The consolidated financial statements include those of the Company and its subsidiaries (hereinafter collectively — the "Group").

The Group's principal business activity is the manufacture of jet engine components using a range of technologies, including machining, casting, and forging. The Company is also engaged in engine overhaul and in the development and manufacture of small engines.

Additional information regarding operating segments is presented in Note 30.

In accordance with Regulation 4 of the Periodic and Immediate Reports Regulations, commencing with the 2013 annual report, the Company has not included separate financial information pursuant to Regulation 9c of the Securities Regulations (Periodic and Immediate Reports), 5730-1970, as it does not provide materially additional information.

B. Definitions:

1. The Company - Bet Shemesh Engines Holdings (1997) Ltd.
2. The Group - Bet Shemesh Engines Holdings (1997) Ltd. and its consolidated subsidiaries.
3. Consolidated companies / subsidiaries - companies whose financial statements are fully consolidated, directly or indirectly, with the Company's financial statements.
4. Related party - as defined in International Accounting Standard 24 (2009) regarding related parties.
5. Interested parties - as defined in paragraph (1) of the definition of "interested party" in a corporation in Section 1 of the Securities Law, 5728-1968.

C. Material Events During the Reporting Period:

1. As of the date of publication of this report, the Company is in the midst of a war in Gaza and on additional fronts, following the attack by the Hamas terrorist organization on the State of Israel on October 7, 2023 (hereinafter: the "War").

Subsequent to the reporting period, on February 28, 2026, Israel and the United States launched a combined attack on Iran, striking Iran's missile systems and various targets of the Iranian regime. In response, the Iranian regime began launching missiles and UAVs toward the State of Israel and additional countries in the region. On March 1, the campaign was extended to Lebanon as well, following rocket fire toward the State of Israel by Hezbollah.

At the commencement of the operation, a decision was made to shift all areas of the country from a state of full operational activity to a state of essential activity only, which includes a prohibition on conducting educational activities, gatherings, and attendance at workplaces — except for workplaces designated as essential to the economy. Additionally, further reserve duty call-ups were carried out for the purposes of the operation.

At this stage, the Company is unable to assess the impact of the operation on its financial position, operating results, and cash flow, if any.

2. On February 3, 2025, the shareholders' meeting approved the following resolutions: (1) cancellation of the par value of the Company's shares and amendment of the Company's incorporation documents accordingly; (2) approval of an increase in the Company's registered share capital by 2 million shares and amendment of the Company's incorporation documents accordingly.
3. On February 26, 2025, the Company's wholly owned subsidiary, BSEL, entered into a joint venture agreement with Ingenieurbüro Cat, M. Zipperer GmbH, — a German company engaged in the development, manufacture, and sale of small engines (hereinafter: "JetCat" or "JC") — for the U.S. and Israeli markets, the activity being intended for the small engines market for the military sector and attributed to the Company's Engines segment. Under the engagement, two jointly-owned companies were established in equal shares to advance the joint venture's objectives.
4. On March 3, 2025, the transaction for the acquisition of Turbine Standard Ltd. was completed, and at that date the shareholders' agreement between the seller and BSEL came into effect. The transaction was financed from the Company's available bank credit. See also Note 7.
5. On March 17, 2025, Carmel Forge Ltd., BSEL's wholly owned subsidiary (hereinafter: "Carmel Forge"), entered into an agreement totaling approximately USD 530 million for the significant renewal and expansion of an existing long-term framework agreement, as part of the Group's Engine Parts segment operations, with an existing customer of the Company and Carmel Forge — one of the world's leading aviation OEMs. Over approximately 16 years of

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 1 - General (continued)

the agreement, Carmel Forge will continue manufacturing dozens of parts for leading engine programs in the civil aviation market, with additional new parts whose value will be determined following the certification process. The agreement came into effect on April 1, 2025 through December 31, 2040, and will replace the original agreement, which was due to remain in effect until December 31, 2028.

6. On August 4, 2025, the subsidiary Bet Shemesh Engines Ltd. entered into an engagement with a leading customer in the jet engine manufacturing field to increase orders from the customer in the amount of USD 100 million.
7. On August 5, 2025, the subsidiary Carmel Forge signed the renewal of a long-term framework agreement with an existing customer in the Engine Parts segment — a leading aviation manufacturer — for the manufacture of parts for civil aviation engine programs. The agreement came into effect on January 2, 2026 for a period of 5 years through December 31, 2030. The Company estimates that revenues over the term of the agreement are expected to total approximately USD 27 million.
8. On October 3, 2025, Carmel Forge entered into an agreement for the renewal and expansion of an existing long-term framework agreement with an existing customer of the Company and Carmel Forge in the Engine Parts segment — one of the world's leading aviation engine OEMs. The agreement has retroactive effect from April 1, 2025, for a period of approximately 14 years, with an option for an additional 5-year extension, and will replace the original agreement which was due to end on December 31, 2028 (with a remaining balance of approximately USD 164 million). Under the agreement, it was agreed that Carmel Forge will develop and manufacture new parts for two leading engine programs. The Company estimates the volume of activity under this agreement, excluding the option period, at approximately USD 1.2 billion, and in the event that the extension option is exercised, the scope of the agreement is expected to increase by approximately USD 400 million.
9. On October 17, 2025, a fire broke out at Carmel Forge's annealing facility. The fire was extinguished with no casualties, and Carmel Forge's main production lines were not damaged. In its initial assessment, the full return of the facility to operation is expected to take several months, with supplies in the interim to be met through the Company's facility in Bet Shemesh. The Company has commenced rehabilitation works at the facility. Carmel Forge holds appropriate insurance policies, including business interruption insurance, and the Company has reported the incident to the insurance company. The Group recognized income receivable of approximately USD 3,224 thousand in other income.
10. On December 29, 2025, the Company raised capital of approximately NIS 200 million in consideration for the allotment of 296,300 ordinary shares of the Company. See Note 18.
11. For events subsequent to the end of the reporting period, see Note 33.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation of the Financial Statements

A. Statement Regarding the Application of International Financial Reporting Standards:

The consolidated financial statements of the Group were prepared in accordance with International Financial Reporting Accounting Standards (IFRS® Accounting Standards) and interpretations published by the International Accounting Standards Board (IASB). The principal accounting policies detailed below have been applied consistently for all reporting periods presented in these consolidated financial statements.

The financial statements are also prepared in accordance with the Securities Regulations (Annual Financial Statements), 5770-2010.

The consolidated statements were approved for publication by the Company's Board of Directors on March 24, 2026.

B. Basis of Measurement:

The statements were prepared on the historical cost basis, except for the following assets and liabilities:

- Deferred tax assets and liabilities.
- Provisions.
- Employee benefit assets and liabilities.
- Financial instruments, derivatives and other items measured at fair value through profit or loss / other comprehensive income.
- Investments in associates and joint ventures.

For additional information regarding the measurement of these assets and liabilities, see Note 3 regarding principal accounting policies.

C. Operating Cycle:

The Group's operating cycle is 12 months.

D. Functional Currency and Presentation Currency:

The consolidated financial statements are presented in U.S. dollars, which is the Company's functional currency, and are rounded to the nearest thousand, unless otherwise stated.

The U.S. dollar is the currency that represents the primary economic environment in which the Company operates.

E. Use of Estimates and Judgment:

In preparing the financial statements in accordance with IFRS, the Group's management is required to use judgment, estimates, and assumptions that affect the application of accounting policies and the amounts of assets and liabilities, revenues, and expenses. It is clarified that actual results may differ from these estimates.

In formulating the accounting estimates used in preparing the Group's financial statements, the Company's management is required to make assumptions regarding circumstances and events that involve significant uncertainty. In exercising judgment in determining the estimates, the Company's management relies on past experience, various facts, external factors, and reasonable assumptions appropriate to each estimate. The estimates and the assumptions underlying them are reviewed on an ongoing basis. Changes in accounting estimates are recognized in the period in which the estimates were revised and in any future period affected.

Information regarding assumptions made by the Group regarding the future and other key sources of estimation uncertainty — where there is a significant risk that the outcome will result in a material adjustment to the carrying amounts of assets and liabilities during the next financial year — is included in the following notes:

1. Inventory values

In calculating inventory balances, the Group applies the inventory write-down policy established by management, based on assessments of inventory realization and projected revenues. See Note 6.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 2 - Basis of Preparation of the Financial Statements (continued)

2. Post-employment employee benefits

In calculating the obligation balance in respect of a defined benefit post-employment plan, the Group used actuarial assumptions for the discount rate and future salary increase rates. For information regarding the impact of changes in actuarial assumptions, see Note 15.

3. Existence of a significant financing component

In assessing whether the contract includes a significant financing component, the Group examines, among other things, the expected length of time between the date on which it transfers promised goods or services to the customer and the date on which the customer pays for those goods or services, and the difference, and the reasons for the difference, if any, between the amount of the promised consideration and the cash selling price of the promised goods or services. See Note 28.

4. Uncertain tax positions

The degree of uncertainty regarding the acceptance of the Group's tax positions and the risk of incurring additional tax expenses and interest is determined based on analysis of several factors, including interpretations of tax laws and the Group's past experience. For information regarding tax assessments received, see Note 16, regarding income taxes.

5. Method for measuring the rate of progress

The Group measures the progress of execution of engine overhaul using an input-based method to measure execution progress, based on an estimate of the total costs required to complete the performance obligation. For projects, the Group measures execution progress using an output-based method based on the percentage of engineering progress of the project. The Group believes that the use of these methods most appropriately represents the manner in which control is transferred to the customer.

6. Assessment of the likelihood of contingent liabilities

In assessing the likelihood of legal claims filed against the Group, the Group relied on the opinions of its legal advisors. These assessments by the legal advisors are based on their best professional judgment, taking into account the stage of the proceedings and the legal experience accumulated in various matters. Since the outcome of claims will be determined in courts, these outcomes may differ from such assessments.

7. Determination of fair value

For the purpose of preparing the financial statements, the Group is required to determine the fair value of certain assets and liabilities. Additional information regarding the assumptions used in determining fair value is included in the following notes:

- Note 19, regarding share-based payment arrangements.
- Note 29, regarding financial instruments.
- Note 7, regarding business combinations, in connection with the fair value of assets and liabilities acquired in a business combination.

In determining the fair value of an asset or liability, the Group uses observable market data to the extent possible. Fair value measurements are classified into three levels in the fair value hierarchy based on the inputs used in the measurement, as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Observable market inputs, directly or indirectly, that are not included in Level 1 above.
- Level 3: Inputs not based on observable market data.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies

A. Foreign Currency Transactions and Foreign Operations:

The Group's functional currency is the U.S. dollar.

The Group is primarily involved in the following transactions denominated in shekels: transactions with suppliers, salary expenses, and loans. These transactions are translated into the Group's functional currency at the exchange rate prevailing at the transaction dates. Monetary assets and liabilities denominated in foreign currency at the reporting date are translated into the functional currency at the exchange rate prevailing at that date.

Exchange differences arising from translation into the functional currency are generally recognized in profit or loss, except for the difference recognized in other comprehensive income arising from the translation of derivatives used in cash flow hedges, in respect of the effective portion of the hedge.

The Group has foreign operations through subsidiaries operating in the United States and Serbia, whose functional currencies are identical to the Group's functional currency.

B. Property, Plant and Equipment:

(1) General

Items of property, plant and equipment are presented in the statement of financial position at cost, net of investment grants received and net of accumulated depreciation. Cost includes the acquisition cost of the asset as well as costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

(2) Depreciation of Property, Plant and Equipment

An asset is depreciated when it is available for use, i.e., when it has reached the location and condition necessary for it to be capable of operating in the manner intended by management.

Depreciation of property, plant and equipment is performed separately for each component of a depreciable item of property, plant and equipment that has a significant cost relative to the total cost of the item. Depreciation is performed systematically using the straight-line method over the expected useful lives of the item's components from the date the asset is ready for its intended use, taking into account expected residual value at the end of the useful life.

The useful lives and depreciation rates used in calculating depreciation are as follows:

	Useful life	Depreciation rates
Buildings	25–40 years	2.5–4%
Machinery and equipment	3–25 years	4–33%
Motor vehicles	6–7 years	15%
Furniture and office equipment	3–10 years	10–33%

The residual values, depreciation method, and useful lives of assets are reviewed by the Company's management at the end of each financial year. Changes are treated as changes in estimates on a prospective basis.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

C. Intangible Assets:

The Group recognizes an investment in a partnership in a Revenue Risk Sharing Program (hereinafter: the "RRSP Project") at the cost of the investment net of accumulated amortization. The amortization of the investment is performed using the straight-line method. See Note 10 regarding intangible assets.

The Group recognizes customer relationships acquired by the Group. Customer relationships are amortized using the straight-line method over 4 years. See Note 7.

Goodwill arising from the acquisition of subsidiaries is presented within intangible assets. For information regarding the measurement of goodwill upon initial recognition, see section (xiv) below. In subsequent periods, goodwill is measured at cost less accumulated impairment losses.

D. Financial Instruments:

(1) Non-Derivative Financial Assets

Recognition and initial measurement of non-derivative financial assets

The Group's non-derivative financial assets consist primarily of trade receivables, other receivables, and cash and cash equivalents.

The Group initially recognizes trade receivables at the date they are created. All other financial assets are initially recognized on the date on which the Group becomes a party to the contractual provisions of the instrument, i.e., the date on which the Group has committed to purchase or sell the asset.

Certain of the Company's trade receivables include a significant financing component.

Derecognition of financial assets

The Group customarily enters into factoring transactions of trade receivables with financial entities for the purpose of discounting a portion of the trade receivable balance. In these transactions, the Company evaluates whether and to what extent the derecognition of the trade receivable balance is appropriate.

The Group derecognizes financial assets (including trade receivables) when the Group's contractual rights to the cash flows from the financial asset expire, or when the Group transfers the rights to receive the cash flows from the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset have been transferred. If the Group has retained substantially all the risks and rewards of ownership of the financial asset, the Group continues to recognize the financial asset.

Classification of financial assets into groups and the accounting treatment for each group

The Group's debt instruments held within a business model whose objective is collecting contractual cash flows in accordance with IFRS 9 include primarily trade receivables and other receivables (see Note 32). The contractual cash flows in respect of these financial assets comprise solely payments of principal and interest that reflect consideration for the time value of money and credit risk. Accordingly, these financial assets are measured at amortized cost.

Financial assets at amortized cost are measured using the effective interest method, net of impairment losses. Interest income, gains or losses from exchange rate differences, and impairment are recognized in profit or loss. Any gain or loss arising from derecognition is also recognized in profit or loss.

The Group has elected to measure the allowance for expected credit losses in respect of trade receivables and other receivables at an amount equal to lifetime expected credit losses.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

(2) Non-Derivative Financial Liabilities

Non-derivative financial liabilities include: bank overdrafts, loans and credit from banking corporations and other credit providers, lease liabilities, trade and other payables.

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

Financial liabilities are initially recognized at fair value, net of any directly attributable transaction costs. After initial recognition, financial liabilities are measured at amortized cost using the effective interest method.

Financial liabilities are derecognized when the Group's contractual obligation expires or is settled or cancelled.

The Group offsets a financial asset and a financial liability and presents the net amount in the statement of financial position when it has a currently enforceable legal right to offset the recognized amounts and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(3) Derivative Financial Instruments, Including Hedge Accounting

The Group holds derivative financial instruments to hedge foreign currency risks.

Hedge accounting

The Group designates certain derivatives as hedging instruments to hedge changes in cash flows relating to highly probable anticipated transactions that arise from changes in foreign currency exchange rates.

At the inception of the hedging relationship, the Group documents its risk management objective and strategy for undertaking the hedge.

The Group also documents the economic relationship between the hedged item and the hedging instrument, including whether the changes in cash flows of the hedged item and of the hedging instrument are expected to offset each other.

Measurement of derivative financial instruments

Derivatives are initially recognized at fair value. Directly attributable transaction costs are recognized in profit or loss as incurred. After initial recognition, derivatives are measured at fair value, and changes in fair value are treated as follows:

When a derivative instrument is designated as a hedging instrument in a cash flow hedge, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income, directly in the hedging reserve. The effective portion of changes in the fair value of the derivative recognized in other comprehensive income is limited to the cumulative change in the fair value of the hedged item (on a present value basis) from the inception of the hedge. The ineffective portion of changes in the fair value is recognized in profit or loss immediately.

The Group designates as the hedging instrument in cash flow hedging relationships only the change in fair value attributable to the spot price element of forward contracts (the 'spot component'). The change in fair value attributable to the forward element of forward contracts (the 'forward component') is not included as part of the hedging relationship and is treated as the cost of hedging, with the change being recognized in the cost of hedging reserve.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

E. Inventories:

Inventory is an asset held for sale in the ordinary course of business, in the process of production for sale, or materials to be consumed in the production process or in the course of rendering services.

Inventories are presented at the lower of cost and net realizable value. The cost of inventories includes all costs of purchase, direct labor costs, fixed and variable overhead costs, and other costs incurred in bringing the inventories to their present location and condition.

Net realizable value represents the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale.

Inventory values are determined as follows:

- | | |
|--|--|
| Raw materials, auxiliary materials, tools, etc. | - at cost (including allocated import costs) calculated using the moving average method or the specific identification method. |
| Work-in-progress | - calculated cost including raw materials and other production costs, and calculated cost using the retail method. |
| Finished goods | - at accumulated cost including raw materials, purchased parts, and accumulated production costs using the moving average method, and also at calculated cost using the retail method. |

Inventory items (excluding long-term inventory) that have been held in the Company's warehouses and plants beyond a defined period are written down in accordance with the policy established by the Group's management, up to full write-down.

In addition, in respect of work-in-progress inventory, a provision is recognized for expected scrapping, in accordance with the policy established by the Group's management.

Net realizable value is generally determined based on the order prices agreed with customers.

F. Share Capital:

Treasury shares: The cost of the Company's shares held by the Company or its consolidated companies is deducted from equity as a separate component.

G. Revenue:

The Group's revenues are divided in accordance with the operating segments (Note 30) as follows:

- Engine Parts Manufacturing
- Engines

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer in an amount reflecting the consideration to which the Group expects to be entitled in exchange for those goods or services. In all revenue arrangements, the Group concludes that it is the principal supplier, since it controls the goods or services prior to their transfer to the customer.

In the engine overhaul field, the Group transfers control overtime, as the Group's performance creates or enhances an asset that is controlled by the customer as it is created or enhanced. The Group measures progress using an input-based method. Under this method, the percentage of completion is determined based on an estimate of the total costs required to complete the performance obligation. For certain projects, the Group measures progress using an output-based method. Under this method, the percentage of completion is determined based on a measurement of the value to the customer of the services provided to date relative to the remaining services promised under the contract.

For the purpose of identifying contracts with customers, the Group takes into account collectability expectations, based on an assessment of the customer's credit rating and collateral.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

Identification of performance obligations

In the Engine Parts Manufacturing field, the Group has identified several performance obligations. Revenues arising to the Group in this field are recognized at the point in time at which control is transferred to the customer, as determined in accordance with the sale terms with the customer.

In the Engines field, the Group has identified several performance obligations. Revenues arising to the Group in this field are recognized at a point in time and sometimes overtime, on a transaction-specific basis.

Existence of a significant financing component

In certain contracts with customers in the Engines field, the Group has identified the existence of a significant financing component. Accordingly, it recognizes the amount of consideration from these contracts using the discount rate that would be reflected in a separate financing transaction between it and the customer at the time of the engagement. The financing component is recognized as interest expense over the period, calculated using the effective interest method.

In cases where the gap between the date of receipt of payment and the date of transfer of goods or services to the customer is one year or less, the Group applies the practical expedient set out in the standard and does not separate a significant financing component.

Contract costs

The Group incurs costs to fulfill contracts with customers that qualify as assets and are amortized on a systematic basis consistent with the transfer to the customer of the goods and services. The Group applies the practical expedient and recognizes an immediate expense for costs of obtaining a contract when the amortization period of the asset would be one year or less.

Contract costs in respect of long-term contracts will be spread over up to 16 years.

Contract asset and contract liability

The Group recognizes a contract asset when there is a right to consideration for goods or services that the Group has transferred to the customer when that right is conditional upon something other than the passage of time, for example, on the Group's future performance. Contract assets are reclassified to the trade receivables line item when the rights therein become unconditional.

The Group recognizes a contract liability (customer advances) when the Group is obligated to transfer goods or services to a customer for which it has received consideration (or the amount has become due) from the customer.

H. Government Grants:

Government grants are initially recognized at fair value when there is reasonable assurance that they will be received and that the Group will comply with the conditions attached to them. Unconditional government grants are recognized when the Group is entitled to receive them. Grants received as compensation for expenses incurred by the Group are presented as a reduction of the related expense. Government grants received for the acquisition of an asset are presented as an offset against property, plant and equipment and are recognized in profit or loss systematically over the useful life of the asset.

I. Provisions:

Provisions are recognized when the Group has a present legal or constructive obligation as a result of a past event, in respect of which it is expected that an outflow of economic resources can be reliably estimated to settle the obligation.

The amount recognized as a provision reflects management's best estimate of the amount that will be required to settle the present obligation at the reporting date of the statement of financial position, taking into account the risks and uncertainties associated with the obligation.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

J. Income Taxes:

Income taxes include current and deferred taxes recognized in profit or loss, unless the tax arises from a business combination, or is recognized directly in equity or in other comprehensive income to the extent that it arises from items recognized directly in equity or in other comprehensive income.

A provision in respect of uncertain tax positions, including additional tax expenses and interest, is recognized when it is more likely than not that the Group will be required to use its economic resources to settle the obligation.

(1) Current taxes

Current tax expenses are calculated based on the taxable income of the Company and the consolidated companies during the reporting period. Taxable income differs from profit before income taxes due to the inclusion or exclusion of income and expense items that are taxable or deductible in different reporting periods, or that are not taxable or not deductible. Current tax assets and liabilities are calculated based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date of the statement of financial position.

Current tax assets and liabilities are presented net when the entity has a currently enforceable legal right to offset the amounts recognized, and intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(2) Deferred taxes

The Group recognizes deferred taxes in respect of temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and in respect of tax losses whose utilization is expected. Deferred tax balances (asset or liability) are calculated at the tax rates expected to apply at the time of their utilization, based on the tax rates and tax laws that have been enacted or substantively enacted by the reporting date of the statement of financial position. Deferred tax liabilities are generally recognized for all temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax assets are recognized for all deductible temporary differences up to the amount for which it is expected that taxable income will be available against which the deductible temporary difference can be utilized.

In calculating deferred taxes, no account is taken of the taxes that would apply in the event of realization of investments in investee companies, as the Group intends to hold and develop these investments.

Deferred tax assets and liabilities are presented net when the entity has a currently enforceable legal right to offset current tax assets against current tax liabilities, and when they relate to income taxes levied by the same tax authority, and the Group intends to settle the current tax assets and liabilities on a net basis.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

K. Employee Benefits:

(1) Post-Employment Benefits

The Group has several post-employment benefit plans. The plans are generally funded through deposits to insurance companies or to funds managed by a trustee and are classified as defined contribution plans and defined benefit plans. See Note 15.

(A) Defined contribution plans

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions to a separate entity without having any legal or constructive obligation to pay additional amounts. The Group's obligations to contribute to a defined contribution plan are recognized as an expense in profit or loss in the periods during which related services are provided by the employees. Obligations to contribute to a defined contribution plan that are due more than 12 months after the end of the period in which the employees have rendered the related service are recognized at their present value.

(B) Defined benefit plans

The Group's net obligation in respect of a defined benefit plan for post-employment benefits is calculated separately for each plan by estimating the future amount of the benefit to which the employee will be entitled in return for services rendered in the current and prior periods. This benefit is presented at present value, net of the fair value of plan assets. The Group determines the net interest on the obligation (asset), net in respect of a defined benefit, by multiplying the obligation (asset), net in respect of a defined benefit, by the discount rate used to measure the defined benefit obligation, as both are determined at the beginning of the annual reporting period.

Expenses in respect of a defined benefit plan are recognized in profit or loss, or form part of the cost of plan assets, in accordance with the Projected Unit Credit Method, using actuarial valuations performed at the end of each reporting period. The present value of the Group's obligation in respect of a defined benefit plan as of December 31, 2025 was determined by discounting the expected future cash flows in respect of the plan using a discount rate appropriate to the yields of high-quality corporate bonds denominated in the currency in which the plan benefits will be paid and with maturity dates approximately equal to the expected settlement dates of the plan. In accordance with the Group's accounting policy, the net interest cost is included in general and administrative expenses / cost of sales in the statement of profit or loss.

Actuarial gains and losses are recognized in other comprehensive income at the time they arise. Actuarial gains and losses recognized in other comprehensive income will not be reclassified to profit or loss at a later date.

Plan assets are measured at fair value. Interest income on plan assets is determined on the basis of the discount rate of the obligation and recognized in profit or loss as part of net interest cost. The difference between the interest income on plan assets and the total return on plan assets is recognized in other comprehensive income and will not be reclassified to profit or loss at a later date.

(2) Short-Term Employee Benefits

Obligations in respect of short-term employee benefits are measured on an undiscounted basis, and the expense is recognized when the related service is rendered, or in the case of non-accumulating absences (such as maternity leave) — at the time of actual absence.

A provision in respect of short-term employee benefits for cash bonuses or profit-sharing plans is recognized at the expected amount to be paid, when the Group has a present legal or constructive obligation to pay such amount in respect of past services rendered by an employee, and the obligation can be reliably estimated.

The classification of employee benefits, for measurement purposes, as short-term or other long-term benefits is determined in accordance with the Group's forecast of the full settlement of the benefits.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

(3) Share-Based Payment Transactions

The Group grants its employees share warrants for the purchase of the Company's shares. The fair value of the options at the grant date is determined by using the Black & Scholes model. The benefit generally includes only a service condition and is spread over the vesting period of the share warrants based on the Company's estimates of the number of options expected to vest. The Group records salary expenses in parallel with the increase in equity over the vesting period.

L. Finance Income and Expenses:

Finance expenses include interest expenses on loans received and exchange differences.

In the statements of cash flows, interest received is presented within investing activity cash flows; interest paid and dividends paid are presented within financing activity cash flows.

Gains and losses from exchange differences in respect of financial assets and liabilities are reported on a gross basis as finance income or finance expenses, depending on exchange rate fluctuations and depending on their position (net gain or loss).

Interest income and expenses are recognized using the effective interest method. As a general rule, the calculation of interest income and expenses is performed by applying the effective interest rate to the gross carrying amount of the financial asset or to the amortized cost of the financial liability, as the case may be.

M. Business Combinations:

The Group applies 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 has the ability to affect those returns through its power over the acquiree. In assessing control, substantive rights held by the Group and others are considered.

The Group recognizes goodwill at the acquisition date at the fair value of consideration transferred, including amounts recognized for any non-controlling interests in the acquiree, and the fair value at the acquisition date of any previously held equity interest in the acquiree, less the net amount attributed at the acquisition to the identifiable assets acquired and liabilities assumed.

Costs related to an acquisition incurred by the acquirer in connection with a business combination — such as finder's fees, advisory fees, legal fees, valuations, and other professional or consulting service fees — are recognized as expenses in the period in which the services are received.

N. Non-Controlling Interests:

Non-controlling interests are equity in a subsidiary that is not attributable, directly or indirectly, to the parent company.

Non-controlling interests that are instruments that confer a present ownership interest and entitle their holders to a share in net assets in the event of liquidation (e.g., ordinary shares), are measured at the acquisition date at fair value or at their proportionate share of the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total profit or loss and other comprehensive income are attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests balance becoming negative.

Issuance of a put option to holders of non-controlling interests

A put option issued by the Group to holders of non-controlling interests that is settled in cash or another financial instrument is recognized as a liability at the present value of the exercise price.

When the Group grants holders of non-controlling interests a put option to sell some or all of their interests in a subsidiary for a specified period, even if this purchase obligation is contingent upon the exercise of the counterparty's contractual right to compel such redemption, and to the extent that the put option agreement does not transfer to the Group the benefits incidental to ownership of the equity instrument (i.e., the Group does not have present ownership of the relevant shares), the Group recognizes a liability in respect of the put option against the owners' equity. At the end of each reporting period, the non-controlling interests (to which a portion of the net profit attributable to non-controlling interests is attributed) are derecognized from the financial statements, as if this redeemable equity instrument had been redeemed at that date.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 3 - Principal Accounting Policies (continued)

The Group remeasures the financial liability at the end of each reporting period, based on the estimated present value of the consideration to be transferred upon exercise of the put option.

The difference between the carrying amount of the non-controlling interests at the end of the reporting period and the present value of the liability is recognized directly in the Group's equity, under the item "capital reserve from transactions with minority".

To the extent that the option is exercised in subsequent periods, the consideration paid at the time of exercise is treated as settlement of the liability.

O. New Standards, Amendments to Standards, and Interpretations Not Yet Adopted:

IFRS 18 — Presentation and Disclosure in Financial Statements:

This standard replaces IAS 1 — Presentation of Financial Statements. The objective of the standard is to provide improved structure and content for financial statements, particularly in the statement of profit or loss.

The standard includes new disclosure and presentation requirements, as well as requirements carried over from IAS 1 with minor wording changes.

As part of the new disclosure requirements, companies will be required to present two intermediate totals in the statement of profit or loss: operating profit and profit before financing and tax. In addition, for most companies, the results in the statement of profit or loss will be classified into three categories: operating profit, investing profit, and financing profit.

In addition to changes in the structure of the statements of profit or loss, the standard also includes a requirement for separate disclosure in the financial statements regarding the use of management-defined performance measures ("non-GAAP" measures).

Furthermore, as part of the amendment, specific guidance was added for the aggregation and disaggregation of items in the financial statements and notes. The standard will discourage companies from classifying items as 'other' (e.g., other expenses), and such classification will trigger additional disclosure requirements. The effective date for first application of the standard is for annual periods beginning on January 1, 2027, with early adoption permitted. The Group is examining the implications of the amendment on the financial statements, without intention to adopt early.

Amendments to IFRS 9 — Financial Instruments and IFRS 7 — Financial Instruments: Disclosures: Amendments to Classification and Measurement of Financial Instruments:

The amendments address the following matters:

Adding clarifications regarding the date of recognition and derecognition of financial instruments and adding an exception regarding the date of derecognition of financial liabilities settled by electronic transfer of cash.

Classification of financial assets:

1. Updating application guidance regarding the manner of 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 (e.g., ESG index linkage) and adding examples on the matter.

2. Clarification regarding when financial instruments are contractually linked and when they constitute non-recourse financial assets for the purpose of determining whether they include solely payments of principal and interest (SPPI).

Updating disclosure requirements for financial instruments with contingent features that are not directly linked to changes in risks/costs underlying the instrument.

Updating disclosure requirements for investments in equity instruments measured at fair value through other comprehensive income (FVOCI).

The amendments will apply commencing from annual reporting periods beginning on January 1, 2026. The Group is examining the implications of the amendments on the financial statements, without intention to early adopt.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 4 - Trade Receivables and Contract Assets

A. Composition:

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Open accounts	79,166	39,877
Checks receivable	65	54
Contract assets	5,029	5,961
	84,260	45,892
Less — allowance for expected credit losses (c)	834	745
	83,426	45,147

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 4 - Trade Receivables and Contract Assets (continued)

- B. The average credit period was 47 days. Even after this period, the Company's customers are not charged late payment interest.

Prior to accepting a new customer, the Group assesses the credit quality granted to the customer and sets credit limits. The limits and ratings assigned to the Company's customers are reviewed annually, or more frequently, based on new information received and on compliance with prior debt payments. Customers with a relatively high-risk level are required to provide advance payments prior to the execution of transactions with them, or various forms of collateral.

The Group has four principal customers whose receivable balance from the Group as of December 31, 2025 totals USD 43,262 thousand (in 2024 — USD 29,239 thousand).

The Group's trade receivable balance as of December 31, 2025 includes USD 16,395 thousand (2024: USD 6,934 thousand) that is past due, but in respect of which the Company, based on its past experience and the credit quality of the debtors, did not recognize a provision for doubtful debts, in light of ongoing status assessments performed by the Company as described above, which corroborate the probability of collection. The four principal customers, accounting for approximately 48% of total sales, have strong financial standing and therefore high credit quality.

As of December 31, 2025, trade receivables of USD 1,955 thousand are secured by credit insurance (2024: USD 1,550 thousand).

The average overdue period of trade receivables past their due date as of December 31, 2025 is 62 days (2024: 66 days).

	As of December 31	
	2025	2024
	USD thousands	USD thousands
0–30 days	9,758	4,006
30–180 days	3,992	2,401
Over 180 days	2,645	527
Total	16,395	6,934

C. Allowance for Expected Credit Losses:

In assessing the likelihood of collection of trade receivables, the Company examines changes in the credit quality of the customer from the date of granting credit to the reporting date. Concentration of credit risk is limited, in light of the financial strength of the customers and the fact that it is spread across different geographic regions.

The Group performs a collective impairment assessment and updates its estimates accordingly. In the year of the report, a provision of USD 68 thousand was recognized.

D. Transfer of Financial Assets:

The balance as of December 31, 2025 includes approximately USD 693 thousand (as of December 31, 2024: USD 11,304 thousand) that the Group transferred from trade receivables to a banking corporation. In accordance with the transaction, the Group transferred the contractual rights to receive cash flows from the financial asset, with the credit risk in respect of non-payment of trade receivables having been transferred from the Group.

As a result of the transfer, the Group derecognized the receivable debtors from the statements. The amount recognized in finance expenses in profit or loss in respect of the transfer of the financial assets was USD 50 thousand (in 2024: USD 402 thousand).

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 5 - Other Receivables and Debit Balances

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Receivables		
Government institutions	4,980	3,657
Employees	485	363
Related parties	588	-
Other receivables	14	97
	<u>6,067</u>	<u>4,117</u>
Debit balances		
Prepaid expenses	2,871	1,964
Advances to suppliers	935	984
Accrued income	2,222	-
Hedging financial instruments at fair value	-	663
Other debit balances	53	-
	<u>6,081</u>	<u>3,611</u>
	<u>12,148</u>	<u>7,728</u>

Note 6 - Inventories

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Raw materials, components, and packaging	55,461	43,849
Work-in-progress	99,108	62,349
Finished parts inventory	29,765	29,112
	<u>184,334</u>	<u>135,310</u>
Goods — payments on account	1,602	1,424
	<u>185,936</u>	<u>136,734</u>
Long-term inventories	<u>311</u>	<u>1,030</u>

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 7 - Investments in Investee Companies

Details of subsidiaries held by the Company:

Name of subsidiary	Country of incorporation	Ownership interest in the equity of a consolidated company	
		As of December 31	
		2025	2024
		USD thousands	USD thousands
Directly held		%	%
Bet Shemesh Engines Ltd.	Israel	99.97%	99.97%
Indirectly held			
Livnica Preciznih Odlivaka D.O.O. ADA (LPO)	Serbia	99.97%	99.97%
BSEL USA Inc.	United States	99.97%	99.97%
Carmel Forge Ltd.	Israel	99.97%	99.97%
Jet Propulsion Israel (*)	Israel	49.99%	49.99%
Turbine Standard Ltd.	United States	79.98%	-
JetCat Defense Israel Ltd.	Israel	49.99%	-
JetCat Defense Inc.	United States	49.99%	-

(*) A company established in 2021 jointly held with Rafael Advanced Defense Systems Ltd. As of the date of this report, the company has no business activity.

Acquisition of Subsidiaries:

On March 3, 2025, the transaction for the acquisition of 80% of the shares and voting rights of Turbine Standard Ltd., a limited liability company (LLC) incorporated in Ohio, USA, engaged in the provision of jet engine repair and maintenance services for aircraft (MRO), was completed (hereinafter: the "acquisition date"). In addition, BSEL holds a call option and the seller holds a put option for the remaining interests in the acquired company, exercisable at the end of 5 years from the acquisition date. The acquisition enables the Group to expand its engine overhaul capabilities and to generate synergies with the Company's operations.

In accordance with valuations performed by a valuation expert, the fair value of the identifiable assets and liabilities acquired was assessed at USD 23,399 thousand.

The Company holds a call option and the seller holds a put option for the remaining shares of the acquired company based on a price to be determined on the basis of EBITDA in the year prior to the option exercise date multiplied by a multiplier as set out in the agreement. The option was valued based on the future exercise price with an expected exercise at the end of 5 years from the acquisition date.

The value of the option as of December 31, 2025 stands at USD 10,722 thousand.

The subsidiary's contribution to the Group's revenues, for the ten-month period ended December 31, 2025, totaled USD 26,133 thousand, and its contribution to the Group's operating profit, net of excess cost amortization, totaled USD 5,565 thousand.

The following data sets out the consideration transferred by its various components and the assets and liabilities recognized at the acquisition date:

Consideration transferred:

	USD thousands
Cash	33,300
Less: settlement of pre-existing relationship with the acquiree (1)	(368)
	<u>32,932</u>

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 7 - Investments in Investee Companies (continued)

- (1) At the acquisition date, the Group attributed USD 368 thousand of the consideration transferred to the settlement of the acquisition with the acquiree; this amount was offset against the consideration transferred.

Identifiable assets at the acquisition date:

Cash and cash equivalents	36
Trade receivables and other receivables	4,600
Inventories	16,120
Property, plant and equipment	5,749
Intangible asset — customer relationships	7,978
Loans and credit	(925)
Trade and other payables	(2,628)
Customer advances	(2,038)
Lease liability	(3,658)
Deferred taxes	(1,835)
Identifiable assets, net	<u>23,399</u>

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 7 - Investments in Investee Companies (continued)

Determination of Fair Value:

The following provides information on how the Group determined the fair value of assets and liabilities recognized in the business combination:

Intangible assets

The method selected to assess the fair value of customer relationships was the Multi-Period Excess Earnings Method (MPEEM), which involves preparing a forecast of future operating earnings. This method is one of the methods for applying the approach to income, which is generally applied and appropriate for most circumstances and most intangible assets. Under this approach, the value of the asset is derived from the present value of the cash flows expected to be generated by it over the remainder of its economic life, using a discount rate of 14.5%.

Net aggregate cash flows used by the Group as a result of the acquisition:

	USD thousands
Cash and cash equivalents paid	33,300
Cash and cash equivalents of the subsidiary	(36)
Less: cash and cash equivalents paid for settlement of pre-existing relationship	(368)
	<u>32,896</u>

Goodwill:

As a result of the acquisition, goodwill was recognized as detailed below:

	USD thousands
Consideration transferred	32,932
Non-controlling interests at fair value	8,233
Less: fair value of identifiable assets, net	(23,399)
Goodwill (1)	<u>17,766</u>

(1) The goodwill recognized in the acquisition relates primarily to the technical skills and human capital expertise of the acquired company and the expected synergies from the integration of the company into the Group's existing operations.

The Company updated the valuation that it uses in its quarterly reports following additional information that became clear regarding the Company's performance.

Acquisition-related costs:

The Group incurred legal costs and due diligence costs attributable to the acquisition in the amount of USD 438 thousand. These costs were included within general and administrative expenses in the statement of profit or loss.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 7 - Investments in Investee Companies (continued)

Jointly Controlled Companies:

Further to Note 1c.3, in April, JetCat Defense Inc. was established in the USA, jointly owned by the Company and JC. The Company accounts for this company using the equity method.

For details regarding a loan extended, see Note 31.

Note 8 - Land Rights

A. Composition:

BSEL holds land under capitalized lease (leasehold rights for various periods ending in 2060) that has not yet been registered in BSEL's name. The non-registration of ownership and leasehold rights in the Land Registry is due to bureaucratic reasons.

In addition, LPO holds real estate registered in the company's name in the Serbian land registry.

Carmel Forge Ltd. holds real estate spanning several plots, most owned outright and one under capitalized lease. The lease on plot 125 expired in September 2019 and is currently in the process of renewal with the Israel Land Authority. Upon renewal of the lease agreement, the company is expected to be required to make up the lease payments for the period up to the renewal of the lease agreement.

B. Presentation in the Statement of Financial Position:

	As of December	
	31,2025	2024
	USD thousands	USD thousands
Property, plant and equipment	9,911	9,175

C. Land Leasehold Rights — Bet Shemesh Plant:

On October 14, 2010, Bet Shemesh Engines Ltd. re-signed a capitalized lease agreement with the Israel Land Authority in respect of the plant land. The lease period under the new agreement commenced on April 1, 2011 for a period of 49 years. As a lessee of capitalized land, the Company is able to develop its real estate with greater ease. In order to capitalize the Company's leasehold rights for the entire new lease period, the Company paid capitalization fees of approximately USD 1.4 million in a single payment on September 7, 2010.

D.

During the reporting period, the State of Israel sent the Company a demand for payment of a debt in connection with the sale of real estate covering approximately 149 dunams in the Bet Shemesh area that was not in regular use by the Group for its operations or future plans. The real estate was sold during 2023 and the Company recognized a provision in its books in this regard. As of the date of this report, the Company has rejected the State's claimed right to receive the funds and has raised objections regarding the calculation of the demand. The matter has not yet developed into legal proceedings and is at a preliminary stage. In the Company's assessment, the provision in the books is appropriate and the abovementioned proceedings are not expected to have a material impact on operating results. See also Notes 13 and 26.

E. For details regarding liens, see Note 32.

Note 9 - Property, Plant and Equipment

	Land	Buildings	Machinery & Equipment	Motor Vehicles	Furniture & Equipment	Leasehold Improvements	Total
Cost -							
Balance at January 1, 2025	11,537	60,043	208,774	3,483	7,091	-	290,928
Acquisitions in business combination	-	-	779	5	157	1,601	2,542
Additions	939	5,394	14,475	80	235	-	21,123
Additions — right-of-use assets in business combination	-	3,207	-	-	-	-	3,207
Additions — right-of-use assets	-	-	79	1,576	-	-	1,655
Disposals	-	(158)	(1,738)	(80)	-	-	(1,976)
Disposals — right-of-use assets	-	-	-	(1,183)	-	-	(1,183)
Balance at December 31, 2025	12,476	68,486	222,369	3,881	7,483	1,601	316,296
Accumulated Depreciation							
Balance at January 1, 2025	2,361	30,421	130,050	2,461	6,346	-	171,639
Depreciation for the year	181	1,262	6,860	53	329	113	8,798
Depreciation — right-of-use assets	23	341	55	711	-	-	1,130
Disposals	-	(132)	(1,723)	(64)	-	-	(1,919)
Depreciation — disposals of right-of-use assets	-	-	-	(1,131)	-	-	(1,131)
Balance at December 31, 2025	2,565	31,892	135,242	2,030	6,675	113	178,517
Net book value: December 31, 2025	9,911	36,594	87,127	1,851	808	1,488	137,779

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Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 9 - Property, Plant and Equipment (continued)

- B. In accordance with the Law for the Encouragement of Capital Investments, 5719-1959, the Company received grants from the State of Israel in respect of its investments in the Company's plants. The grants are conditional upon requirements that obligate the Company not to realize its investments for a period of seven years from the date of the investment. Management expects that the Company will comply with the said conditions, such that the Company does not anticipate being required to repay the grants.

During January 2024, approval was received from the Investment Center for an investment plan in the amount of approximately USD 12 million. During 2025, a grant of approximately USD 485 thousand was received. After the balance sheet date, an additional approximately USD 100 thousand was received.

- C. Investment grants received or expected to be received in accordance with the Law for the Encouragement of Capital Investments, in Israel and in Serbia, are deducted from the cost of the assets for which they were received, and depreciation is calculated accordingly (see Note 3).

D. Additional Details:

For details regarding land rights, see Note 8.

- E. During the reporting period, the subsidiary Carmel Forge Ltd. received notice of amendment to the land tax assessment that increased the company's annual land tax charge by approximately NIS 1.7 million (approximately USD 0.5 million). The assessment amendment notices also included a retroactive charge for the years 2019–2025 in a total amount of NIS 14.9 million (approximately USD 4.4 million). In addition, the subsidiary received a demand for payment of road paving, drainage, and public open space levies issued by the Tirat HaCarmel municipality in a total amount of approximately NIS 15.3 million (approximately USD 4.5 million). The subsidiary is examining both demands through its legal advisors and intends to initiate legal proceedings against these charges. At this stage it is premature to assess the outcome of the above legal proceedings.

- F. The Company holds and operates equipment (including a test cell) belonging to the State of Israel. The equipment, other than the costs of its improvement, is not recorded in the Company's financial statements.

G. Commitments:

As of December 31, 2025, the Group has signed purchase orders for property, plant and equipment in the amount of approximately USD 15 million.

H. Pledges:

See Note 32.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 10 - Intangible Assets

	Revenue Risk Sharing Program	Goodwill	Customer Relationships	Total
Cost -				
Balance at January 1, 2024	9,514	-	-	9,514
Balance at December 31, 2024	9,514	-	-	9,514
Balance at January 1, 2025	9,514	-	-	9,514
Acquisitions in business combination	-	17,766	7,978	25,744
Balance at December 31, 2025	9,514	17,766	7,978	35,258

Accumulated Amortization

	Revenue Risk Sharing Program	Goodwill	Customer Relationships	Total
Balance at January 1, 2024	8,253	-	-	8,253
Amortization for the year	631	-	-	631
Balance at December 31, 2024	8,884	-	-	8,884
Balance at January 1, 2025	8,884	-	-	8,884
Amortization for the year	630	-	1,662	2,292
Balance at December 31, 2025	9,514	-	1,662	11,176

Net Book Value

At January 1, 2024	1,261	-	-	1,261
At December 31, 2024	630	-	-	630
At December 31, 2025	-	17,766	6,316	24,082

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Credit from Banking Corporations and Other Credit Providers

A. Composition of Financial Liabilities Measured at Amortized Cost

	Interest Rate	Current Liabilities		Non-Current Liabilities		Total	
	Average						
	Annual	At December 31		At December 31		At December 31	
	2025	2025	2024	2025	2024	2025	2024
	%	USD thousands					
Short-term loans	5.1	20	14,488	-	-	20	14,488
Long-term loans from banking corporations	4.8	6,895	7,465	7,031	13,927	13,926	21,392
Lease liabilities	5.3	1,106	461	4,089	341	5,195	802
Total credit from banking corporations and other credit providers		8,021	22,414	11,120	14,268	19,141	36,682

B. Financial Covenants on Material Credit:

The Company has undertaken to comply with financial covenants, and the following sets out its obligations in respect of material credit. The covenants will be examined based on the Company's quarterly and annual consolidated financial statements over four consecutive quarters. Non-compliance with the said financial covenants constitute grounds for early repayment of the loan:

- (a) Tangible equity shall not fall below USD 80 million, and the equity-to-total-balance-sheet ratio shall not fall below 30%. During the reporting period, the Company is in compliance with this covenant.
- (b) The Debt-to-EBITDA ratio shall not exceed 4.5 at any time. During the reporting period, the Company is in compliance with this covenant.

Additional restrictions:

Dividend distributions at BSEL shall be permitted subject to compliance with all financial covenants established and up to 50% of total net profit for that year. In addition, in the event of a change of control in the Company without obtaining the prior consent of the banking corporation, or a change of control in BSEL other than as a result of a merger of the Company into BSEL under terms agreed with the banking corporation, the banking corporation shall be entitled, but not obligated, to accelerate all debts and obligations to immediate repayment and to exercise any legal remedy available to it. Furthermore, BSEL and Carmel Forge Ltd. have undertaken not to create, nor to commit to create, any lien or encumbrance of any kind over their assets or property, in whole or in part, whether existing now or in the future, in favor of any person or entity whatsoever, except for permitted liens in accordance with the provisions of the agreement.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Credit from Banking Corporations and Other Credit Providers (continued)

C. Movement in Liabilities Arising from Financing Activities

	Liabilities			Equity	Total
	Bank overdrafts and short-term loans	Long-term loans (including current maturities)	Lease liabilities		
Balance at January 1, 2025	14,488	21,392	802	193,326	230,008
Changes from cash flows from financing activities					
Loan repayments	(15,410)	(7,465)	-	-	(22,875)
Interest paid	(4,141)	(1,245)	-	-	(5,386)
Proceeds from share issuance				62,021	62,021
Payment of lease liability	-	-	(845)	-	(845)
Total net cash changes from financing activities	(19,551)	(8,710)	(845)	62,021	32,915
Other changes					
Cash interest payments	4,141	1,245	-	-	5,386
Loan value adjustment	17	-	-	-	17
Creation of lease liability	-	-	1,581	-	1,581
Changes from business combination	925	-	3,658	-	4,583
Other changes in equity	-	-	-	43,354	43,354
Balance at December 31, 2025	20	13,927	5,196	298,701	317,844

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 11 - Credit from Banking Corporations and Other Credit Providers (continued)

C. Movement in Liabilities Arising from Financing Activities (continued)

	Liabilities			Equity	Total
	Bank overdrafts and short-term loans	Long-term loans (including current maturities)	Lease liabilities		
Balance at January 1, 2024	19,491	33,695	643	154,320	208,149
Changes from cash flows from financing activities					
Loan repayments	(5,003)	(12,136)	-	-	(17,139)
Interest paid	(1,889)	(1,462)	-	-	(3,351)
Payment of lease liability	-	-	(640)	-	(640)
Total net cash changes from financing activities	(6,892)	(13,598)	(640)	-	(21,130)
Other changes					
Cash interest payments	1,889	1,462	-	-	3,351
Loan value adjustment	-	(167)	-	-	(167)
Creation of lease liability	-	-	799	-	799
Other changes in equity	-	-	-	39,006	39,006
Balance at December 31, 2024	14,488	21,392	802	193,326	230,008

Note 12 - Trade and Other Payables

Composition

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Open accounts *	29,508	20,827
Accrued expenses	12,818	5,587
	42,326	26,414
 * Of which, suppliers who are related parties and interested parties — see Note 31:	 520	 310

The average credit period received for purchases of goods and services was 44 days, in respect of which the Group pays no interest. The Group pays suppliers and service providers in accordance with the fixed credit period.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 13 - Other Payables and Credit Balances

Composition

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Government institutions	8,397	5,167
Interested parties *	96	77
Interest payable	323	271
Other payables **	13,743	14,424
Hedging financial instruments at fair value	10	-
	<u>22,569</u>	<u>19,939</u>

* See Note 31.

** The majority of the balance arises from the real estate transaction, see Note 8.

Note 14 - Leases

Commencing January 1, 2019, the Group has applied IFRS 16, Leases. Under its lease agreements, the Group leases the following items:

1. Land.
2. Machinery and equipment.
3. Motor vehicles.
4. Buildings.

1. Information Regarding Material Lease Agreements

- A. The Group leases motor vehicles from several leasing companies for a period of three years, and from time to time adjusts the number of vehicles to its current needs. The leased vehicles are identified by license plates and vehicle licenses; the leasing companies have no substitution capability for the vehicles, other than in cases of defects. The leased vehicles are used by the Group's headquarters staff, marketing and sales employees, and other employees whose employment agreements include an obligation on the part of the Group to make a vehicle available to them. The Group treated the arrangement between it and the leasing companies as a lease arrangement within the scope of IFRS 16, and the arrangement between it and its employees as an arrangement within the scope of IAS 19. The Group has no extension and/or cancellation options in the agreements with the leasing companies that are reasonably certain to be exercised.
- B. The Group leases land. See Note 8 regarding land rights.
- C. The Group leases several machines in Serbia.
- D. The Group leases three buildings in the United States under operating lease agreements for offices, MRO facilities, and component facilities. The lease on the offices and jet engine MRO facilities expires on June 30, 2030. The lease on the component facilities expires on December 31, 2037. The MRO facility lease expires on September 30, 2030.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 14 - Leases (continued)

2. Right-of-Use Assets

	Buildings	Land	Machinery & Equipment	Motor Vehicles	Total
	USD thousands				
Balance at January 1, 2024	-	746	172	623	1,541
Additions — right-of-use assets	-	-	53	747	800
Disposals — right-of-use assets	-	-	-	(278)	(278)
Depreciation — right-of-use assets	-	(23)	(37)	(553)	(613)
Depreciation — disposals of right-of-use assets	-	-	-	277	277
Balance at December 31, 2024	-	723	188	816	1,727
Balance at January 1, 2025	-	723	188	816	1,727
Additions — right-of-use assets	-	-	79	1,576	1,655
Additions in business combination	3,207	-	-	5	3,212
Disposals — right-of-use assets	-	-	-	(1,183)	(1,183)
Depreciation — right-of-use assets	(341)	(23)	(55)	(711)	(1,130)
Depreciation — disposals of right-of-use assets	-	-	-	1,131	1,131
Balance at December 31, 2025	<u>2,866</u>	<u>700</u>	<u>212</u>	<u>1,634</u>	<u>5,412</u>

3. Lease Liability

Maturity analysis of the Group's lease liabilities as of December 31, 2025

	Up to 1 year	1 to 5 years	Total
Credit from banking corporations and other credit providers	1,106	-	1,106
Other non-current liabilities	-	4,089	4,089
	<u>1,106</u>	<u>4,089</u>	<u>5,195</u>

4. Amounts Recognized in Profit or Loss

	For the year ended December 31		
	2025	2024	2023
Amortization of right-of-use assets	1,130	613	564
Interest expense on lease liability	107	105	22
	<u>1,237</u>	<u>718</u>	<u>586</u>

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 15 - Employee Benefits

Employee benefits include post-employment benefits, other long-term benefits, termination benefits, short-term benefits, and share-based payments.

For benefits to key management personnel, see Note 31 regarding related parties and interested parties.

For share-based payments, see Note 19 regarding share-based payments.

A. Composition

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Presented within non-current assets:		
Employee benefit assets	422	564
Presented within current liabilities — other payables:		
Wages, salaries, and social benefits	12,899	10,061
Vacation benefits	3,827	3,117
	<u>16,726</u>	<u>13,178</u>
Presented within non-current liabilities — employee benefits:		
Obligation for severance and termination pay — b(2)	<u>3,461</u>	<u>2,870</u>

B. Post-Employment Benefits

(1) Defined Contribution Plans

Retirement and severance pay plans

Israeli labor law and the Severance Pay Law require the Company to pay severance to an employee upon dismissal or retirement (including employees leaving under certain other specific circumstances). The calculation of the obligation in respect of termination of employer-employee relations is performed in accordance with the employment agreement in force and is based on the employee's salary which, in management's opinion, gives rise to the right to receive severance.

The Group has a defined contribution plan in respect of the Company's obligation to make contributions to the provident fund compensation component and also in respect of certain employees to whom Section 14 of the Severance Pay Law, 5723-1963 applies.

The Company will have no legal or constructive obligation to make additional payments if the plan does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

The total amount of expenses recognized in profit or loss in respect of defined contribution plans for the year ended December 31, 2025 was USD 1,019 thousand (2024: USD 754 thousand; 2023: USD 669 thousand).

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 15 - Employee Benefits (continued)

(2) Defined Benefit Plans

(1) General

Retirement and severance pay obligations

The Group's defined benefit plan obligations include the obligation for severance pay for the remaining obligation not covered by deposits and/or insurance policies in accordance with the existing employment agreements, the Severance Pay Law, and based on the salary components that, in the opinion of the management of the companies, entitle employees to receive severance. In respect of this portion of the obligation, there are designated amounts deposited in the name of the Group's companies in pension funds and insurance companies. The designated amounts in pension funds and insurance companies include accumulated linkage differences and interest. Withdrawal of the designated amounts is conditional upon compliance with the provisions set out in the Severance Pay Law.

The said obligation was calculated using an actuarial assessment. The present value of the defined benefit obligation and the related current and past service costs were measured using the Projected Unit Credit Method.

(2) Principal Actuarial Assumptions at the End of the Reporting Period

	As of December 31	
	2025	2024
	%	%
Discount rates	4.73	5.46
Expected future salary increase rates	4.02	4.49

Sensitivity analyses for principal actuarial assumptions:

- If the expected salary increase rate had increased (decreased) by 10%, the defined benefit obligation would have increased by USD 87 thousand (decreased by USD 80 thousand).
- If the expected discount rate had increased (decreased) by 10%, the defined benefit obligation would have decreased by USD 121 thousand (increased by USD 131 thousand).
- If the expected discount rate had increased (decreased) by one percentage point, the defined benefit obligation would have decreased by USD 443 thousand (increased by USD 548 thousand).

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Employee Benefits (continued)

(3) Amounts Recognized in Profit or Loss in Respect of Defined Benefit Plans

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Current service cost	493	477	335
Interest cost	750	701	701
Interest income	(588)	(557)	(570)
	<u>655</u>	<u>621</u>	<u>466</u>
Expense included in the following line items:			
Cost of sales	623	721	570
Selling expenses	26	(37)	(26)
General and administrative expenses	6	(63)	(78)
	<u>655</u>	<u>621</u>	<u>466</u>

(4) Movement in the Present Value of the Defined Benefit Plan Obligation

	2025	2024
	USD thousands	USD thousands
Opening balance	13,277	13,179
Current service cost	493	477
Interest cost	750	701
Actuarial losses — change in economic assumptions	122	(20)
Actuarial losses — experience adjustments	198	150
Exchange differences	1,937	(69)
Benefits paid	(810)	(1,141)
Closing balance	<u>15,967</u>	<u>13,277</u>

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Employee Benefits (continued)

(5) Movement in the Fair Value of Plan Assets / Recognized Indemnification Rights

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Opening balance	10,971	10,904
Interest income recognized	588	557
Actuarial gains — change in economic assumptions	7	4
Actuarial gains — experience adjustments	928	800
Exchange differences	1,532	(62)
Employer contributions	142	137
Benefits paid	(1,240)	(1,369)
Closing balance	12,928	10,971

(6) Reconciliation of the Present Value of the Defined Benefit Plan Obligation and the Fair Value of Plan Assets to the Assets and Liabilities Recognized in the Balance Sheet

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Present value of funded obligations	15,967	13,277
Fair value of plan assets including indemnification rights	(12,928)	(10,971)
Total net liability recognized in respect of defined benefit plan	3,039	2,306

(7) Actual Return on Plan Assets and Indemnification Rights

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Interest income	588	557	570
Difference between return calculated at discount rate and actual return	887	693	(42)
Actual return on plan assets	1,475	1250	528

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 15 - Employee Benefits (continued)

(8) Actuarial Gains Recognized in Other Comprehensive Income (Gross of Tax)

	2025	2024
	USD thousands	USD thousands
Accumulated balance at January 1	2,196	1,522
Amounts recognized during the year	615	674
Accumulated balance at December 31	2,811	2,196

(9) Best Estimate of Expected Contributions for the Next Year

The Group's contributions to defined benefit plans during the coming year are expected to total approximately USD 140 thousand.

C. Other Long-Term Employee Benefits

(1) Composition

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Vacation benefits	3,827	3,117

(2) Principal Actuarial Assumptions at the End of the Reporting Period

	As of December 31	
	2025	2024
	%	%
Discount rates	4.7	5.5
Expected future salary increase rates	4.0	4.5

(3) Additional Information

Paid Vacation Days

In accordance with the Annual Leave Law, 5711-1951, the Company's employees are entitled to a number of paid vacation days for each year of employment. In accordance with the said law and a supplement thereto established in the agreement between the Company and the employees, the number of vacation days per year to which each employee is entitled is determined based on that employee's seniority.

The provision was calculated on the basis of an actuarial calculation that assumes positive accumulation of days by the majority of employees and utilization of days using the LIFO ("last in, first out") method.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Income Taxes

A. Details Regarding the Tax Environment in Which the Group Operates

(1) Corporate Tax Rate

The corporate tax rate in Israel from 2019 onward is 23%.

Current tax expenses in respect of capital gains were calculated at a rate of 23%.

(2) Tax Basis

Commencing January 1, 2025, the Company's results are measured for tax purposes in NIS.

From January 1, 2020 through December 2024, pursuant to the Income Tax Regulations (Rules Regarding the Keeping of Accounts by Companies with Foreign Investment in Respect of Certain Partnerships and the Determination of Their Taxable Income, 5746-1986), the Company's results were measured for tax purposes in the Company's functional currency — U.S. dollars.

(3) Benefits Under the Law for the Encouragement of Capital Investments

On December 29, 2010, the Knesset approved the Economic Policy Law for 2011-2012, which included an amendment to the Law for the Encouragement of Capital Investments, 5719-1959 (hereinafter: the "Amendment"). The Amendment came into effect on January 1, 2011, and its provisions apply to preferred income generated or accrued by a preferred company, as defined in the Amendment, in 2011 and thereafter.

On August 5, 2013, the Knesset passed the Law for Changing National Priorities (Legislative Amendments for Achieving Budgetary Objectives for 2013 and 2014), 5773-2013, which established an increase in the tax rates on preferred income commencing in 2014 as follows: 9% in Development Area A and 16% in the rest of the country.

The Company meets the conditions established in the Amendment to the Law for the Encouragement of Capital Investments for eligibility under the tax benefits track. Accordingly, current and deferred taxes in respect of preferred income are calculated at a tax rate of 16%.

(4) Benefits Under the Law for the Encouragement of Industry (Taxes)

(A) The Company and certain consolidated companies are "industrial companies" as defined in the Law for the Encouragement of Industry (Taxes), 5729-1969, and are accordingly entitled to benefits, the principal of which are:

(a) Depreciation at accelerated rates.

(b) Deduction of expenses for the issuance of shares listed for trading on the stock exchange in three equal annual installments commencing from the year the Company's shares were listed for trading.

(c) Amortization over 8 years of patents and know-how used for the development of the plant.

(d) Ability to file consolidated tax returns for companies with a single production line.

(B) The Company and certain subsidiaries file a consolidated tax return with the tax authorities pursuant to the Law for the Encouragement of Industry (Taxes), 5729-1969. As a result, the companies are entitled, inter alia, to offset their losses against the taxable income of other companies, subject to compliance with certain conditions.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Income Taxes (continued)

B. Components of Income Tax Expense

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Current taxes			
Current tax expense (income)	8,424	7,417	20,389*
Prior year adjustments, net	(1,340)	1,714	1
Total current taxes	7,084	9,131	20,390
Deferred taxes			
Deferred tax expense (income) origination and reversal of temporary differences	(2,846)	(618)	208
Write-down of deferred tax asset	269	-	1,248
Total deferred taxes	(2,577)	(618)	1,456
Total income tax expense	4,507	8,513	21,846

* Including real estate taxes.

C. Income Taxes on Components of Other Comprehensive Income

	For the year ended December 31								
	2025			2024			2023		
	Before tax	(Tax benefit)	Net of tax	Before tax	(Tax benefit)	Net of tax	Before tax	(Tax benefit)	Net of tax
Cash flow hedges	(424)	-	(424)	391	-	391	484	-	484
Remeasurement of defined benefit plan	615	(116)	499	674	(108)	566	386	(62)	324
Total	191	(116)	75	1,065	(108)	957	870	(62)	808

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Income Taxes (continued)

D. Reconciliation Between Theoretical Tax on Pre-Tax Profit and Income Tax Expense

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Profit for the year	48,021	44,937	81,800
Company's primary tax rate	16%	16%	16%
Tax calculated at primary tax rate	7,683	7,190	13,088
Increase (reduction) in tax in respect of:			
Exempt income	(9)	(9)	(1)
Non-deductible expenses	473	281	151
Changes in deferred tax assets for deductions and carried forward losses	269	(48)	8
Difference between measurement basis of income/ expense as reported for tax purposes vs. financial statements	(2,844)		
Income taxable at different tax rate *	41	18	7,813
Different tax rate in subsidiaries operating outside Israel **	(64)	23	787
Taxes for prior years	(1,340)	1,714	-
Creation of deferred taxes not previously recognized	298	(656)	-
Total income taxes as presented in profit or loss	4,507	8,513	21,846

* Income from real estate sale.

** The subsidiary LPO (see Note 7) operates in a country subject to reduced tax rates of 4%.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Income Taxes (continued)

E. Deferred Tax Assets Recognized for Temporary Differences

	Property, plant and equipment	Employee benefits	Tax losses carryforward and deductions	Others	Total
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
Asset (liability) balance at January 1, 2025	(9,064)	770	269	885	(7,140)
Changes recognized in profit or loss	72	302	(269)	2,472	2,577
Changes recognized in other comprehensive income	-	(116)	-	-	(116)
Business combinations (see Note 7)	-	-	-	(1,835)	(1,835)
Asset (liability) deferred tax balance at December 31, 2025	<u>(8,992)</u>	<u>956</u>	<u>-</u>	<u>1,522</u>	<u>(6,514)</u>
Deferred tax asset in statement of financial position at December 31, 2025					-
Deferred tax liability in statement of financial position at December 31, 2025					<u>(6,514)</u>

	Property, plant and equipment	Employee benefits	Tax losses carryforward and deductions	Others	Total
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
Asset (liability) balance at January 1, 2024	(8,810)	727	269	164	(7,650)
Changes recognized in profit or loss	(254)	151	-	721	618
Changes recognized in other comprehensive income	-	(108)	-	-	(108)
Asset (liability) deferred tax balance at December 31, 2024	<u>(9,064)</u>	<u>770</u>	<u>269</u>	<u>885</u>	<u>(7,140)</u>
Deferred tax asset in statement of financial position at December 31, 2024					214
Deferred tax liability in statement of financial position at December 31, 2024					<u>(7,354)</u>

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 16 - Income Taxes (continued)

F. Carry Forward Losses

	Loss for which deferred tax asset recognized		Loss for which no deferred tax asset recognized	
	As of December 31,		As of December 31,	
	2025	2024	2025	2024
Capital loss				
Capital loss	-	-	411	360
Business carry-forward loss	-	6,725	-	-

G. Tax Assessments

The Company and BSEL have final tax assessments through and including tax year 2020. Carmel Forge has final tax assessments through and including tax year 2024. The subsidiary, Bet Shemesh Engines Ltd., is currently in the process of tax assessment proceedings for the years 2021–2024.

Note 17 - Contract Liabilities

An amount of USD 47,033 thousand (as of December 31, 2024 — USD 27,065 thousand) represents advances received from customers on account of work expected to be performed in the coming years. Accordingly, the accounting substance of the liability is an advance that will be offset against the customer's consideration when the transaction is executed. Accordingly, the amount of USD 36,194 thousand out of the total advances was classified as a current liability.

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 18 - Share Capital

A. Authorized Capital

	As of December 31,	
	2025	2024
	Thousands of shares	Thousands of shares
Ordinary shares of NIS 1 par value each	12,000	10,000

On February 3, 2025, the Company increased its authorized capital to 12,000 thousand shares and canceled the par value.

B. Issued Capital

	Number of Shares	
	As of December 31	
	2025	2024
	Thousands	Thousands
Class A ordinary share capital at January 1	9,038	8,900
Issued for cash during the period (1)	296	-
Exercise of share warrants during the period	138	138
Class A ordinary share capital at December 31	9,472	9,038

There is cross-holding between the Company and BSEL in the amount of 383 thousand shares with a value of USD 1,017 thousand.

On December 30, 2025, 296 thousand ordinary shares were issued in consideration of approximately USD 62,697 thousand. Issuance costs totaled USD 676 thousand and were charged to equity.

C. Rights Attached to Shares

Ordinary shares confer upon the holder the right to vote and the right to receive dividends.

D. Dividend Details

	2025	2024	2023
Declared and paid	-	-	45,218

On August 28, 2023, a dividend distribution to the Company's shareholders was approved in a total amount of approximately NIS 180 million (USD 47 million). The dividend per share was approximately NIS 20.34 (USD 5.34) per share. The dividend paid was net of dividend on treasury shares in the amount of USD 2 million.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 19 - Share-Based Payment

The terms of the share-based payment transactions are as detailed below. All warrants are non-tradable and are settled by way of granting the benefit component:

- On March 23, 2023, 11,000 options were granted to 2 employees in the Group. The options will vest in three equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.
- On April 30, 2023, the expiry date of options granted in April 2017 to the Company's CEO was extended by 10 months.
- On November 28, 2023, the expiry date of options granted in January 2018 to office holders was extended by one year.
- On January 8, 2024, 26,500 options were granted to Company employees. The options will vest in three equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.
- On January 8, 2024, 90,000 options were granted to Group office holders. The options will vest in three equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.
- On January 8, 2024, 30,000 options were granted to Group office holders. The options will vest in four equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.
- On February 13, 2024, 110,000 options were granted to the Company's CEO. The options will vest in four equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.
- On August 15, 2024, 58,000 options were granted to Group employees and one office holder. The options will vest in three equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.
- On December 26, 2024, 42,750 options were granted to Group employees. The options will vest in three equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.
- On November 26, 2025, 10,500 options were granted to Group employees and service providers who are not office holders. The options will vest in three equal annual tranches commencing at the end of two years from the grant date. The options will expire after 6 years.

A. Number of Warrants and Weighted Average Exercise Price

	Weighted Avg. Exercise Price		Number of Warrants	
	2025	2024	2025	2024
Balance at January 1	\$ 29.02	\$ 17.16	550,367	405,503
Forfeited during the year	\$ 82.32	\$ 19.99	(3,868)	317
Granted during the year	\$ 210.34	\$ 42.82	10,500	357,250
Exercised during the year	\$ 17.61	\$ 15.67	(162,013)	(212,703)
Balance at December 31	<u>\$ 50.49</u>	<u>\$ 29.02</u>	<u>394,986</u>	<u>550,367</u>

B. Details Regarding Measurement of Fair Value of Share-Based Payment Plans

The fair value of employee warrants was measured using the Black-Scholes model. The model assumptions include the share price at the measurement date, the instrument's exercise price, expected volatility (based on the weighted average of the historical volatility of the Company's shares over the expected life of the options, adjusted for expected changes based on publicly available information), the expected life of the instruments (based on past experience and the general behavior of warrant holders), expected dividends, and a risk-free interest rate (based on government bonds). Service conditions and non-market performance conditions are not taken into account in determining the fair value.

Equity-settled share-based payment plans

The following are the parameters used to measure the fair value at the grant date of equity-settled share-based payment plans:

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 19 - Share-Based Payment (continued)

	Share option plans		
	Employees 3/23	Office Holders 1/24	CEO 2/24
	2023	2024	2024
The parameters used in the fair value calculation:			
Fair value	\$ 8.91	\$12.37-\$14.23	\$ 14.96
Share price (at grant date)	\$ 24.5	\$ 31.82	\$ 32.35
Exercise price	\$ 24.86	\$ 31.74	\$ 33.73
Expected life of warrant (weighted avg.)	6 years	4-5 years	6 years
Expected volatility (weighted avg.)	41%	43%-45%	43%
Expected dividend rate	0%	0%	0%
Risk-free interest rate	4%	3.67%-3.76%	4%

	Share option plans			
	Employees 12/24	Employees 8/24	Office Holders 1/24	Employees 11/25
	2024	2024	2024	2025
The parameters used in the fair value calculation:				
Fair value	\$ 30.53	\$ 22.23	\$12.37-\$14.23	\$ 91.79
Share price (at grant date)	\$ 76.59	\$ 55.69	\$ 31.82	\$ 186.34
Exercise price	\$ 82.58	\$ 58.38	\$ 31.74	\$ 204.63
Expected life of warrant (weighted avg.)	4-5 years	4-5 years	4-5 years	6 years
Expected volatility (weighted avg.)	38%-50%	37%-46%	43%-45%	50%
Expected dividend rate	0%	0%	0%	0%
Risk-free interest rate	4.3%-4.4%	4.5%-4.6%	3.67%-3.76%	3.8%

C. Salary Expense in Respect of Share-Based Payment Arrangements and Additional Details

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Salary expense for share-based payments settled in equity instruments of the Group	2,190	1,625	874

For details regarding warrants granted to related parties, see also Note 31.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 20 - Earnings Per Share

The calculation of basic earnings per share for the year ended December 31, 2025 was based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding, as follows:

Profit Attributable to Ordinary Shareholders

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Net profit for the year	42,711	36,413	59,935

Weighted Average Number of Ordinary Shares

	For the year ended December 31		
	2025	2024	2023
	Thousands	Thousands	Thousands
In thousands of shares, NIS 1 par value			
Weighted average number of ordinary shares used to calculate basic earnings per share at December 31	8,733	8,602	8,474

Diluted Earnings Per Share

The calculation of diluted earnings per share for the year ended December 31, 2025 was based on the profit attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares outstanding, adjusted for all dilutive potential ordinary shares, as follows:

Profit Attributable to Ordinary Shareholders (Diluted)

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Net profit for the year	42,711	36,424	59,954

Weighted Average Number of Ordinary Shares (Diluted)

	For the year ended December 31		
	2025	2024	2023
	Thousands	Thousands	Thousands
In thousands of shares, NIS 1 par value			
Weighted average number of ordinary shares used to calculate basic earnings per share	8,733	8,602	8,474
Effect of share warrants	263	204	134
Weighted average number of ordinary shares used to calculate diluted earnings per share	8,996	8,806	8,608

In 2025, 2024, and 2023, 5 thousand options, 25 thousand options, and 10 thousand options, respectively, were excluded from the calculation of the average weighted number of ordinary shares (diluted), as their effect is anti-dilutive.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 21 - Revenue from Sales and Work Performed

A. Disaggregation of Revenue from Contracts with Customers

The following table disaggregates the Group's revenue by principal customers. The table also includes a reconciliation of disaggregated revenue to the Group's reportable segments.

For additional information regarding revenue disaggregated by geographic area, see Note 30 regarding operating segments.

For the year ended December 31, 2025			
Reportable Segments			
	Engine Parts Manufacturing	Engines	Total
	USD thousands		
Customer A	52,057	-	52,057
Customer B	-	39,380	39,380
Customer C	32,214	-	32,214
Customer E	-	26,203	26,203
Others	87,713	76,516	164,229
	<u>171,984</u>	<u>142,099</u>	<u>314,083</u>

For the year ended December 31, 2024			
Reportable Segments			
	Engine Parts Manufacturing	Engines	Total
	USD thousands		
Customer C	-	44,938	44,938
Customer A	42,831	-	42,831
Customer B	32,023	-	32,023
Customer D	20,990	-	20,990
Others	65,263	52,936	118,199
	<u>161,107</u>	<u>97,874</u>	<u>258,981</u>

For the year ended December 31, 2023			
Reportable Segments			
	Engine Parts Manufacturing	Engines	Total
	USD thousands		
Customer A	42,471	-	42,471
Customer B	27,986	-	27,986
Customer C	-	24,490	24,490
Customer D	20,975	-	20,975
Others	56,911	36,854	93,765
	<u>148,343</u>	<u>61,344</u>	<u>209,687</u>

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 21 - Revenue from Sales and Work Performed (continued)

B. Contract Balances

Customer advances (contract liabilities) recognized as revenue during the year totaled USD 9,513 thousand (2024: USD 1,278 thousand; 2023: USD 3,729 thousand).

C. Contract Costs:

Management estimates that costs paid in respect of development for new products are recoverable. Accordingly, the Group recognized such costs as a non-current asset of USD 17,226 thousand as of December 31, 2025 (December 31, 2024: USD 15,333 thousand; December 31, 2023: USD 15,591 thousand).

Costs recognized as an asset are amortized on a systematic basis in accordance with the pattern of recognition of the revenue to which the costs relate. The amount amortized in 2025 was USD 2,302 thousand (2024: USD 2,224 thousand; 2023: USD 1,746 thousand).

Note 22 - Cost of Sales and Processing

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Composition			
Raw materials, auxiliary materials, and consumables	126,555	98,689	81,060
Wages, salaries, and related expenses	82,026	67,745	62,290
Other manufacturing expenses	38,046	32,330	30,262
Depreciation and amortization	12,297	10,955	10,427
	258,924	209,719	184,039
Decrease (increase):			
In work-in-progress inventories	(11,728)	(3,595)	(12,986)
In finished goods inventories	(10,316)	(10,888)	4,295
	(22,044)	(14,483)	(8,691)
	236,880	195,236	175,348

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 23 - Selling and Marketing Expenses

For the year ended December 31			
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Composition			
Salaries and related expenses	2,453	1,770	1,703
Sales commissions	2,381	2,049	1,788
Bad debts and provision for doubtful debts*	1,707*	56	68
Consulting, marketing and promotion	870	367	375
Other	1,220	796	936
	<u>8,631</u>	<u>5,038</u>	<u>4,870</u>

* Includes impairment of trade receivables

Note 24 - General and Administrative Expenses

For the year ended December 31			
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Composition			
Salaries and related expenses	9,950	6,995	5,715
Fees for professional services	715	834	619
Bad debts and provision for doubtful debts	333	307	266
Credit loss expenses (contractual)	68	225	(142)
Other	4,105	2,041	1,501
	<u>15,171</u>	<u>10,402</u>	<u>7,959</u>

Note 25 - Other Expenses

For the year ended December 31			
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Composition			
Loss from disposal of fixed assets	15	407	-
Expenses for prior years	36	2	17
Expenses related to real estate sales	393	269	19,471
Other	235	12	4
	<u>679</u>	<u>690</u>	<u>19,492</u>

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 26 - Other Income

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Composition			
Income from investment property	-	-	(2,756)
Gain from disposal of property, plant and equipment and investment property	(28)	(468)	(83,364)
Indemnification for fire damage (see Note 9.g.1)	(3,224)	-	-
Income from lease of roofs	(166)	(152)	(124)
Other	(88)	(35)	(110)
	<u>(3,506)</u>	<u>(655)</u>	<u>(86,354)</u>

Note 27 - Financing Income

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Composition			
Interest income	26	4	7
Exchange rate differences and other	1,404	1,756	1,903
	<u>1,430</u>	<u>1,760</u>	<u>1,910</u>

Note 28 - Financing Expenses

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Composition			
Interest expenses	(5,395)	(4,005)	(6,763)
Significant financing component of contracts	(1,115)	(862)	(366)
Exchange rate differences and other	(3,127)	(226)	(1,353)
	<u>(9,637)</u>	<u>(5,093)</u>	<u>(8,482)</u>

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 29 - Financial Instruments

A. Capital Management Policy

The Group manages its capital so as to ensure that Group entities are able to continue as going concerns while maximizing the return to equity holders, by maintaining an optimal debt-to-equity ratio. No changes were made to the Group's capital management policy during 2025 compared to 2024.

The capital structure of the Company comprises net debt — consisting of the loans described in Note 11, net of cash and cash equivalents — and total equity, comprising issued capital, capital reserves and retained earnings as set out in the statement of changes in equity.

Leverage Ratio

Group management reviews the capital structure on an annual basis. As part of that review, management evaluates the cost of capital and the risks associated with each class of capital.

B. Financial Risk Management Objectives

The Group's treasury function provides services to the business, facilitates access to domestic and international financial markets, and monitors and manages the financial risks relating to the Group's operations through internal reports that analyses the degree of risk exposure by level and magnitude.

These risks include market risks (comprising currency risk, fair value interest rate risk, price risk and cash flow interest rate risk), credit risk and liquidity risk.

The Group mitigates the effects of the foregoing risks using derivative financial instruments to hedge its risk exposures. The use of derivative financial instruments is carried out in accordance with the Group's policy as approved by the Board of Directors.

C. Market Risk

The Group's operations expose it primarily to the financial risks of changes in NIS/USD exchange rates (see section 1 below) and/or changes in interest rates (see section 3 below) and/or other market risks. The Group holds derivative financial instruments to manage its exposures to market risks. As at the reporting date, the Company holds derivative balances (see Note 5).

1. Currency Risk – Statement of Financial Position Balances

The Group is exposed to currency risk in respect of balances denominated in currencies other than the functional currencies of Group companies. The currencies in which these transactions are denominated include New Israeli Shekel (NIS), Euro and others. This gives rise to exposure to exchange rate fluctuations. The currency risk exposure is managed pursuant to an approved risk management policy.

The notional amounts of the Group's foreign-currency-denominated financial assets and liabilities are as follows (USD thousands):

	Net Liabilities		Liabilities		Assets	
	As of December 31,		As of December 31,		As of December 31,	
	2025	2024	2025	2024	2025	2024
	USD thousands		USD thousands		USD thousands	
New Israeli Shekel (NIS)	(38,291)	(45,423)	104,233	(62,376)	65,942	16,953
Other currencies	(1,363)	(69)	(3,267)	(2,273)	1,904	2,204

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 29 - Financial Instruments (continued)

Foreign Currency Sensitivity Analysis

A positive figure in the table indicates an increase in profit or loss after tax when the USD strengthens by 5% or 10% against the NIS, or a decrease in profit or loss after tax when the USD weakens by 5% or 10% against the NIS. This effect is stated before the impact of the Company's hedging instruments (see section C.2 below).

	Impact of the shekel	
	As of December 31	
	2025	2024
	Thousands	Thousands
Rate of Change		
-10%	(4,255)	(5,047)
-5%	(2,015)	(2,391)
+5%	1,823	2,163
+10%	3,481	4,129

2. Cash Flow Hedging

From time to time, the Company holds financial derivative liabilities for the purpose of protecting its exposure against fluctuations in the NIS/USD exchange rate, a portion of which have been designated as hedging instruments for the purposes of hedge accounting, covering an average annual range of 80%–100% of the exposure. Accordingly, in respect of these derivatives, the Company recognised income of USD 4,761 thousand during the year, which was recognized in profit or loss.

A loss of USD 424 thousand was recognized in other comprehensive income.

The fair value of the derivatives was measured at Level 2. See section F below.

3. Interest Rate Risk

The Group is exposed to SOFR-based interest rate risks in respect of its SOFR-linked loans, as well as prime-rate risks in respect of NIS-denominated loans. Refer to Note 11. The Company does not enter into hedging transactions to mitigate this risk.

D. Credit Risk Management

Refer to Note 4 – Trade Receivables.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 29 - Financial Instruments (continued)

E. Liquidity Risk Management

Responsibility for liquidity risk management rests with the Board of Directors. The Board has established an appropriate framework for the management of liquidity risk in relation to management's requirements for short-term, medium-term and long-term financing and liquidity. The Group manages liquidity risk by continuously monitoring actual and projected cash flows and matching the maturity profiles of financial assets and liabilities.

Interest Rate and Liquidity Risk Tables

Financial Liabilities that are not Derivative Financial Instruments

The following tables detail the Group's remaining contractual maturities for its financial liabilities that are not derivative financial instruments. The tables have been prepared on the basis of the undiscounted cash flows of the financial liabilities, based on the earliest date on which the Group may be required to make payment. The tables include both interest and principal cash flows.

	Effective Avg. Interest Rate	Year 1	Year 2	Year 3	Year 4	Year 5+	Total
	%	USD thousands					
<u>2025</u>							
Non-interest bearing		50,814	-	-	-	-	50,814
Variable rate instruments	5.1	2,766	2,611	633	-	-	6,010
Fixed rate instruments	4.8	5,867	4,260	1,663	667	1,874	14,331
		<u>59,447</u>	<u>6,871</u>	<u>2,296</u>	<u>667</u>	<u>1,874</u>	<u>71,155</u>
<u>2024</u>							
Non-interest bearing		36,055	-	-	-	-	36,055
Variable rate instruments	6.0	17,379	2,738	2,611	633	-	23,361
Fixed rate instruments	4.1	5,892	4,926	3,312	795	-	14,925
		<u>59,326</u>	<u>7,664</u>	<u>5,923</u>	<u>1,428</u>	<u>-</u>	<u>74,341</u>

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 29 - Financial Instruments (continued)

F. Fair Value

Financial Instruments not Presented at Fair Value in the Statement of Financial Position

The carrying amounts of certain financial assets and financial liabilities — including cash and cash equivalents, trade receivables, other receivables, other short-term investments, deposits, short-term loans and credit facilities, trade payables and other payables — approximate their fair values.

	As of December 31,	
	2025	2024
	Level 2	Level 2
USD thousands		
Financial Assets		
Forward contracts, options and swap transactions on exchange rates – designated as hedging instruments	243	667
Forward contracts, options and swap transactions on exchange rates – not designated as hedging instruments	(253)	(4)
	<u>(10)</u>	<u>663</u>

Information on Fair Value Measurements of Level 2 Financial Instruments

Financial Instrument	Valuation Techniques and Inputs Used to Determine Fair Value
Forward contract / Swap transaction	The fair value of these transactions is calculated as the dollar differential between the amount the Company would be required to pay pursuant to the terms of the original transaction versus the dollar amount at which the same quantity of shekels could currently be purchased, based on the forward exchange rate for the remaining life of the transaction derived from current market conditions, comprising: USD/NIS exchange rate, USD interest rate and NIS interest rate.
Options	The fair value of each option represents the premium that would currently be paid/received for the purchase/sale of an option with identical characteristics under prevailing market conditions. The valuation takes into account the following variables: spot rate at the date of entering into the transaction, option strike price, effective risk-free interest rate in the primary currency, effective risk-free interest rate in the secondary currency, time to expiry in years, and the implied volatility derived from the exchange rate.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 30 - Operating Segments

A. General

The Group has two reportable segments, as detailed below, which constitute the Group's strategic business units. These strategic business units encompass a range of technologies, products and services and are managed separately for the purposes of resource allocation and performance evaluation, given that they require different technology and different marketing strategies. For each strategic business unit, the chief operating decision maker reviews internal management reports at least once per quarter.

The following is a brief description of the business activities of each of the Group's operating segments:

Parts Manufacturing Segment — engaged in the manufacture of parts for jet engines, including the manufacture of precision castings, forgings and machining of metal components for jet engines.

Engines Segment — engaged in the overhaul, assembly and engineering of engines, as well as the development, manufacture and assembly of small engines.

For a breakdown of revenues by customer, refer to Note 21.

B. Revenue and Results Analysis by Operating Segment

For the year ended December 31, 2025				
	Parts Manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenues from external customers	171,984	142,099	-	314,083
Inter-segment revenues	12,504	908	(13,412)	-
Total segment revenues	184,488	143,007	(13,412)	314,083
Operating profit	23,616	35,357	(2,745)	56,228
Cost of sales and processing	153,551	96,257	(12,928)	236,880
Depreciation and amortization expenses	10,708	1,469	2,345	14,522

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 30 - Operating Segments (continued)

For the year ended December 31, 2024

	Parts Manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenues from external customers	161,107	97,874	-	258,981
Inter-segment revenues	9,169	430	(9,599)	-
Total segment revenues	170,276	98,304	(9,599)	258,981
Operating profit (reported)	21,238	28,281	(1,249)	48,270
Cost of sales and processing	140,824	63,452	(9,040)	195,236
Depreciation and amortization expenses	9,887	782	684	11,353

For the year ended December 31, 2023

	Parts Manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenues from external customers	148,343	61,344	-	209,687
Inter-segment revenues	3,990	280	(4,270)	-
Total segment revenues	152,333	61,624	(4,270)	209,687
Operating profit/(loss) (reported)	8,250	14,987	65,135	88,372
Cost of sales and processing	137,456	41,607	(3,715)	175,348
Depreciation and amortization expenses	9,174	944	683	10,801

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 30 - Operating Segments (continued)

C. Information on a Geographic Basis

The breakdown of revenues from external customers for the year ended 31 December:			
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Domestic sales (Israel)	70,433	67,130	32,501
Export sales:			
North America	105,554	73,866	68,080
Europe	109,935	96,124	88,930
Asia	13,110	13,715	9,194
South America	6,077	4,885	9,102
Africa and other	8,974	3,261	1,880
	243,650	191,851	177,186
Total revenues	314,083	258,981	209,687

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 31 - Transactions with Interested Parties and Related Parties

A. Compensation of Key Management Personnel and Interested Parties Employed by the Group

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Short-term employee benefits	1,903	1,526	1,496
Bonus	909	716	542
Share-based payments (*)	915	880	556
Post-employment benefits	-	47	-
	<u>3,727</u>	<u>3,169</u>	<u>2,594</u>
Number of individuals	5	5	5

(*) Granted to the Company's CEO and senior employees — refer to Note 19.

B. Compensation of Key Management Personnel and Interested Parties Not Employed by the Group (including Directors)

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
Management fees	<u>148</u>	<u>129</u>	<u>129</u>
Number of individuals	1	1	1
Directors' remuneration	<u>152</u>	<u>136</u>	<u>124</u>
Number of individuals	6	7	7

Bet Shemesh Engines Holdings (1997) Ltd.
Notes to the Consolidated Financial Statements

Note 31 - Transactions with Interested Parties and Related Parties (continued)

C. Balances with Related Parties and Interested Parties

	As of December 31	
	2025	2024
	USD thousands	USD thousands
Within Current Assets		
Trade and other receivables:		
Jointly controlled entity	588	-
Entity with significant influence	3	3
Loan to jointly controlled entity	250	-
Within Current Liabilities		
Trade payables	520	310
Payables:		
Other related parties	96	77

D. Transactions with Related Parties and Interested Parties:

The following details transactions with related parties and interested parties (all transactions are conducted on arm's length terms):

	For the year ended December 31		
	2025	2024	2023
	USD thousands	USD thousands	USD thousands
<u>Expenses:</u>			
Key management personnel incl. directors	4,027	3,434	2,847
Related parties	1,488	1,594	1,232

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Consolidated Financial Statements

Note 32 - Pledges and Guarantees

A. Guarantees

The aggregate number of guarantees provided by the Group to third parties as security, as at 31 December 2025, amounts to USD 33,458 thousand (31 December 2024: USD 13,006 thousand).

B. Pledges

- (1) BSEL has registered a floating lien in favour of the State of Israel in connection with an investment programme under the Approved Enterprise track pursuant to the Law for the Encouragement of Capital Investments. The floating lien is over all of the Company's assets and shall also apply to all benefits, income and rights arising from the assets charged, including insurance rights. For details regarding the investment programmed, refer to Note 9.
- (2) BSEL has undertaken vis-à-vis several banking corporations in Israel that, for so long as BSEL owes any amount whatsoever to such corporations in respect of credit facilities, BSEL shall not, without the prior written consent of those banking corporations, create any charge over BSEL's assets ("negative pledge"). Notwithstanding the foregoing, BSEL shall be entitled to create a charge over assets in favour of a third party that provides credit for the acquisition of those assets, to secure BSEL's obligations in respect of such credit. In addition, a lien has been registered over the shares of Carmel Forge in favor of the bank.
- (3) To ensure advances received from a customer, BSEL has registered a lien in favor of that customer over the production file of a product manufactured by BSEL, as well as over the production and assembly infrastructure on the Company's relevant premises relating to that product.
- (4) A lien has been registered over BSEL's leasehold rights, as described in Note 8, in favor of Clal Industries Ltd. and the Company, in connection with the transaction for the sale of shares between Clal Industries Ltd. and the FIMI Fund in 2016. The FIMI Fund undertook to step into the shoes of Clal Industries Ltd., however the process of transferring the guarantee has not yet been completed.
- (5) To secure the utilization of the credit line of the subsidiary, Turbine Standard, with Waterford Bank, a lien has been registered over all assets of the subsidiary.

Note 33 - Events After the Reporting Period

1. On 9 March 2026, the Company's subsidiary, Bet Shemesh Engines Ltd., entered an expansion of its existing arrangements with an existing customer in the Parts segment — an international aerospace and propulsion manufacturer. Under the expansion, new items were added to programmed covering some of the most advanced propulsion systems in aviation, item prices were updated, and the market share to be supplied by the Company was increased. The supply period extends through to the end of 2032. The value of the expansion and other matters agreed with the customer is estimated at approximately USD 80 million over the contract period.
2. On 16 March 2026, a jointly controlled entity, Jet Cat Defence Inc., received an order from CoAspire, a U.S. defense and aerospace company specializing in the development, design and manufacture of cruise missiles under defence programmed for the U.S. Government and other defense agencies. The order is valued at approximately USD 10.2 million for delivery during 2026, subject to the completion of a certification process expected to take place during the following three months. In addition, the Company anticipates that further orders from this customer will be received for supply commencing from 2027.