



BET SHEMESH ENGINES
HOLDINGS (1997) LTD.

Bet Shemesh Engines Holdings (1997) Ltd.

Bet Shemesh Engines Holdings (1997) Ltd.

Quarterly Report For the Second Quarter of 2026

Disclaimer

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BET SHEMESH ENGINES
HOLDINGS (1997) LTD.

Bet Shemesh Engines Holdings (1997) Ltd.

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Chapter A – Board of Directors' Report on the State of the Corporation's Affairs

For the period ended June 30, 2026



Board of Directors' Report on the State of Affairs of Bet Shemesh Engines Holdings (1997) Ltd. for the period ended June 30, 2026

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 during the six-month period ended June 30, 2026 (hereinafter: the "**Reporting Period**"), in accordance with Regulation 48 of the Securities Regulations (Periodic and Immediate Reports), 1970. This report has been prepared on the basis that its readers also have before them the Company's most recent Periodic Report, for 2025, including the Board of Directors' Report, the Description of the Corporation's Business chapter and the financial statements included therein (immediate report of March 25, 2026; reference: 2026-01-026704) (hereinafter jointly: the "**2025 Periodic Report**").

In addition, condensed consolidated financial statements as of June 30, 2026 (hereinafter: the "**Financial Statements**") are attached to this report.

It is emphasized that the description contained in this report includes forward-looking information as defined in the Securities Law, 1968 (hereinafter: the "Securities Law"). Forward-looking information is uncertain information regarding the future, including a forecast, evaluation, estimate or other information relating to a future event or matter, the materialization of which is uncertain due to factors that are beyond the Company's control.

1. The Corporation and its Business Environment

- 1.1 The Company was incorporated in 1997 as a private company limited by shares, and shortly thereafter issued shares to the public and became a public company, as that term is defined in the Companies Law, 1999 (hereinafter: the "**Companies Law**").
- 1.2 The Company's operations are carried out primarily through its subsidiary, Bet Shemesh Engines Ltd. (hereinafter: "**BSEL**"), and its subsidiaries (hereinafter jointly: the "**Group**"), in two principal areas of activity:
 - (a) the engine parts manufacturing activity;
 - (b) the engines activity.

For details regarding the Group's areas of activity, see Sections 6, 8 and 9 of the Description of the Corporation's Business chapter in the 2025 Periodic Report.

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 Description of the Corporation's Business chapter in the 2025 Periodic Report.

2. Frame Orders

- 2.1. The Group has long-term framework agreements and other orders against which the parties hold estimates with respect to expected orders (Frame Orders) (hereinafter: the "**Frame Orders**"). Based, inter alia, on these Frame Orders, the Group prepares its supply forecast, orders raw



materials having long lead times, and procures the equipment required in order to meet the projected production volumes. For further details, see Sections 8.4 and 9.3 of the Description of the Corporation's Business chapter in the 2025 Periodic Report.

- 2.2. As of the date of publication of this report, the Group's Frame Orders extend over a period of up to approximately 16 years and amount to approximately USD 3.3 billion, compared with USD 3.2 billion as of December 31, 2025. It is clarified that Frame Orders do not obligate the customer to place specific orders from within the said framework.

The information regarding the Frame Orders constitutes forward-looking information as defined in the Securities Law, 1968 (hereinafter: the "Securities Law"), reflecting the current estimates and assumptions of the Company's management as of this date, which are 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 that are beyond the Company's control, including factors within the customers' control and/or market conditions and the like.

For details regarding the Company's order backlog, see Sections 8.6 and 9.5 of the Description of the Corporation's Business chapter in the 2025 Periodic Report.

3. Financial Position

Set forth below are the principal items of the condensed consolidated interim statement of financial position, together with the Company's explanations:

Condensed Consolidated Statements of Financial Position (USD thousands)				
	As of June 30		For the year ended December 31, 2025	Company's Explanations (compared with the statement of financial position as of 31.12.2025)
	2026	2025*		
Current assets	309,623	242,765	287,123	The increase stems mainly from an increase in inventory, trade receivables and other receivables balances
Non-current assets	187,386	175,198	180,070	
Total assets	497,009	417,963	467,193	
Current liabilities	116,298	166,784	125,836	The decrease stems mainly from a decrease in contract liabilities and payables balances
Long-term liabilities	50,806	35,678	42,656	The increase stems mainly from an increase in long-term contract liabilities due to customer advances
Equity	329,905	215,501	298,701	An increase originating from the Company's profits
Total liabilities and equity	497,009	417,963	467,193	

* Restated. See Note 6 to the Financial Statements.



- 3.1 The Company's working capital as of June 30, 2026 amounted to approximately USD 193,325 thousand, compared with approximately USD 75,981 thousand as of June 30, 2025 and with approximately USD 161,287 thousand as of December 31, 2025. The increase in working capital is attributable mainly to the growth in inventory, trade receivables and other receivables balances, alongside a decrease in contract liabilities balances.
- 3.2 The value of inventory (excluding long-term inventory) as of June 30, 2026 amounted to approximately USD 199,957 thousand, compared with USD 166,019 thousand as of June 30, 2025, and with approximately USD 185,936 thousand as of December 31, 2025.
- 3.3 Trade receivables as of June 30, 2026, amounted to approximately USD 85,771 thousand, compared with approximately USD 62,402 thousand as of June 30, 2025 and with approximately USD 83,426 thousand as of December 31, 2025.
- 3.4 Trade payables as of June 30, 2026 amounted to approximately USD 41,842 thousand, compared with approximately USD 26,942 thousand as of June 30, 2025 and with USD 42,326 thousand as of December 31, 2025.
- 3.5 The current ratio as of June 30, 2026 stood at approximately 2.7, compared with approximately 1.5 as of June 30, 2025 and with approximately 2.3 as of December 31, 2025. The increase in the current ratio reflects the growth in the Company's business activity, alongside the realization of customer advances received in prior periods.
- 3.6 The balance of short-term bank credit (including current maturities of long-term loans) as of June 30, 2026 amounted to approximately USD 6,513 thousand, compared with approximately USD 66,270 thousand as of June 30, 2025 and with approximately USD 6,915 thousand as of December 31, 2025.
- 3.7 Long-term loans as of June 30, 2026 amounted to approximately USD 4,219 thousand, compared with approximately USD 10,194 thousand as of June 30, 2025 and with approximately USD 7,031 thousand as of December 31, 2025.
- 3.8 Total net financial debt to banks amounted to approximately USD 4,231 thousand as of June 30, 2026, compared with net financial debt of approximately USD 76,007 thousand as of June 30, 2025 and with approximately USD 8,333 thousand as of December 31, 2025.
- 3.9 Under the material loans, the Company has undertaken to comply with financial covenants that are examined on the basis of the Company's consolidated quarterly and annual financial statements over four consecutive quarters. During the Reporting Period, the Company is in compliance with the covenants.

4. Results of the Corporation's Operations

- 4.1. Analysis of profit and loss for the three-month period ended June 30, 2026 and 2025 (USD thousands):



Condensed Consolidated Statements of Profit or Loss				
	For the three-month period ended		For the year ended December 31, 2025	Company's Explanations
	June 30, 2026	June 30, 2025*		
Revenue	91,447	76,887	314,083	Growth in sales in both of the Company's operating segments
Gross profit	21,168	19,315	77,203	
Gross profit margin	23.1%	25.1%	24.6%	
Operating profit	17,292	13,139	56,228	The growth was recorded despite the negative impact of the appreciation of the NIS against the dollar. In addition, net profit from the joint venture (JV) of JCD was included for the first time
Operating profit margin	18.9%	17.1%	17.9%	
Net profit	16,003	7,559	43,514	The growth in net profit is attributable to the growth in operating profit, alongside the decrease in finance expenses and tax expenses
Net profit margin	17.5%	9.8%	13.9%	
EBITDA	21,016	17,002	70,750	
EBITDA margin	23.0%	22.1%	22.5%	

* Restated. See Note 6 to the Financial Statements.

The growth in the Company's sales turnover compared with the corresponding period last year amounted to approximately USD 14.6 million, representing growth of approximately 18.9%, and originated from growth in both of the Company's operating segments and includes a total of approximately USD 3.1 million deriving from price updates to customers.

The negative impact of the change in the dollar exchange rate on the Company's operating profit relative to the corresponding quarter last year is approximately USD 5.6 million.

Finance expenses, net amounted in the reported period to approximately USD 1.2 million, compared with approximately USD 2.8 million in the corresponding period last year. A decrease of approximately USD 1.1 million is in interest expenses as a result of the reduction of financial debt.

4.2. Operating segment results for the quarter:



Condensed Consolidated Statements of Profit or Loss (USD thousands)								
	For the three months ended June 30, 2026				For the three months ended June 30, 2025*			
	Engines activity	Engine parts manufacturing activity	Adjustments	Total	Engines activity	Engine parts manufacturing activity	Adjustments	Total
Revenue	42,034	52,477	(3,064)	91,447	35,541	43,942	(2,596)	76,887
Operating profit	9,431	8,537	(676)	17,292	9,061	4,789	(711)	13,139
Operating profit margin	22.4%	16.3%		18.9%	25.5%	10.9%		17.1%

* Restated. See Note 6 to the Financial Statements.

The parts segment is continuing its growth trend, a stable trend which the Company estimates is expected to continue in the light of the increasing demand in the industry alongside the optimization of improved production processes. These processes yielded operating profitability that succeeded in overcoming most of the negative impact of the appreciation of the NIS against the dollar (approximately 17.6% compared with the corresponding period last year), the effect of which on the segment's results in the reported period amounted to approximately USD 4.9 million.

The engines segment is persisting in its growth trend on the basis of the realization of business opportunities originating in the increasing demand in its business environment, both in Israel and abroad (with an emphasis on the defense market), which is translated into growth in sales while maintaining the profitability rates that characterize the segment. In the reported period, the Company's share (50%) in the net profit of the Jet Cat Defense joint venture, in the amount of approximately USD 1 million, was included for the first time in the engines segment under other income (for further details regarding the joint venture, see Section 21.5 of the Description of the Corporation's Business chapter in the 2025 Periodic Report).

The information regarding the continuation of the recovery trend and the Company's ability to meet the anticipated demand, alongside coping with ongoing challenges, constitutes forward-looking information as defined in the Securities Law, reflecting the current estimates and assumptions of the Company's management as of this date, which are 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 that are beyond the Company's control, including factors within the customers' control and/or market conditions and the like.



5. Liquidity and Sources of Financing

5.1. Liquidity

Condensed Consolidated Statements of Cash Flows (USD thousands)				
	For the three-month period ended June 30		For the year ended December 31	Company's Explanations
	2026	2025	2025	
Cash flows provided by (used in) operating activities	(5,681)	9,531	30,177	Negative cash flow from operating activities as a result of working capital requirements arising from the growth in operations. See further reference in Section 3.5 above
Cash flows used in investing activities	(5,653)	(4,844)	(57,581)	Investments in property, plant and equipment
Cash flows provided by (used in) financing activities	(2,329)	(4,684)	32,915	Mainly as a result of the repayment of long-term loans
Balance of cash and cash equivalents	6,321	457	5,613	

Condensed Consolidated Statements of Cash Flows (USD thousands)				
	For the six-month period ended June 30		For the year ended December 31	Company's Explanations
	2026	2025	2025	
Cash flows provided by (used in) operating activities	16,605	7,691	30,177	
Cash flows used in investing activities	(12,090)	(44,119)	(57,581)	
Cash flows provided by (used in) financing activities	(4,894)	36,783	32,915	
Balance of cash and cash equivalents	6,321	457	5,613	

5.2. Sources of Financing

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

5.2.2. For details regarding long-term liabilities to banking corporations, see Section 3.7 above.



- 5.2.3. For details regarding liabilities to banks, see Sections 3.6 and 3.7 above.
- 5.2.4. For further details regarding reportable credit and sources of financing, including the financial covenants, see Section 17 of the Description of the Corporation's Business chapter in the 2025 Periodic Report.
- 5.2.5. For further details regarding interest rates, inflation and the dollar exchange rate and their direct and indirect impact on the Company's results, see Section 5.2.6 of the Board of Directors' Report in the 2025 Periodic Report and Section 7.8 of the Description of the Corporation's Business chapter in the 2025 Periodic Report.
- 5.2.6. For details regarding trade receivables and trade payables, see Sections 15.3 and 15.4 of the Description of the Corporation's Business chapter in the 2025 Periodic Report.

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

6. Corporate Governance Aspects

6.1. Donations

The Company has no donations policy and, during the second quarter of 2026, no changes occurred with respect to the disclosure given on this matter, as reflected in the Board of Directors' Report attached to the 2025 Periodic Report.

6.2. Disclosure Regarding Directors with Accounting and Financial Expertise

No changes occurred in the Board of Directors' determination regarding the minimum required number of directors with accounting and financial expertise, as detailed in the Board of Directors' Report attached to the 2025 Periodic Report. For details regarding directors with accounting and financial expertise, see Regulation 26 of the Additional Details chapter in the 2025 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 the Companies Law.

6.4. Details Regarding the Corporation's Internal Auditor

During the Reporting Period, no material change occurred with respect to the data regarding the Company's Internal Auditor as detailed in the annual Board of Directors' Report attached to the 2025 Periodic Report.



6.5. Details Regarding the External Auditor

During the Reporting Period, no material change occurred with respect to the data regarding the Company's external auditor as detailed in the annual Board of Directors' Report attached to the 2025 Periodic Report.

6.6. Critical Accounting Estimates

No material changes occurred with respect to the details regarding material accounting estimates and judgments set out in Note 2 to the consolidated financial statements attached to the 2025 Periodic Report.

6.7. Events During the Reporting Period and After the Reporting Date

- 6.7.1. For events that occurred from January 1, 2025 through the date of publication of the report for the first quarter of 2026, see Section 6.7 of the Company's Board of Directors' Report attached to the 2025 Periodic Report and the Company's Board of Directors' Report attached to the report for the first quarter of 2026 (as published on May 26, 2026, reference: 2026-01-048083), which are incorporated herein by reference.
- 6.7.2. On May 25, 2026, the Company's Board of Directors resolved to appoint Mr. Eliezer Shkedi as a director of the Company. For further details, see the Company's immediate report of May 26, 2026 (reference no.: 2026-01-048138).
- 6.7.3. On May 28, 2026, Harel Insurance Investments and Financial Services Ltd. became an interested party in the Company. For further details, see the Company's immediate report of May 28, 2026 (reference no.: 2026-01-050753).
- 6.7.4. On June 16, 2026, a special general meeting of the shareholders was held, at which, inter alia, the resolution to approve the amendment of the Company's articles of association was adopted, as detailed in the meeting convening report. For full details regarding the meeting convening report and the results of the meeting, see the Company's immediate reports of May 25, 2026 and June 16, 2026 (reference nos.: 2026-01-047829 and 2026-01-056597, respectively), which are incorporated herein by reference.
- 6.7.5. On June 16, 2026, the Company reported an amendment to its articles of association, under which it was determined that any amendment and/or cancellation of sub-article 12A of the articles of association shall be effected by a special majority of 95% of the total shares voting on the said resolution, instead of a special majority of 75%. For further details, see the Company's immediate report of June 16, 2026 (reference no.: 2026-01-056598).
- 6.7.6. On August 18, 2026, the Company's Board of Directors resolved to convene an annual and special general meeting of the shareholders, including the approval of the items on its agenda (in accordance with the recommendation of the Compensation Committee, to the extent relevant), the agenda of which includes, inter alia, the following resolutions: (a) approval of an updated compensation policy for the Company's officers; and (b) a retention plan for the Company's CEO. Full details regarding the convening of the meeting and the items on the agenda will be brought in a detailed report as required under the regulations, upon the setting of a date for the meeting by the Company's management.



- 6.7.7. On August 18, 2026, the Company's Board of Directors approved a private placement of 1,500 options, which are not listed for trading and are not transferable, to an employee of an associate of the Company, all in accordance with the Company's option plan. The allocation is subject to receipt of the approval of the Tel Aviv Stock Exchange Ltd. for the listing for trading of the exercise shares. For further details, see the allocation report to be published shortly after the publication of this report.
- 6.7.8. Except as stated in the sections above, during the period from the reporting date (June 30, 2026) through the date of approval of this report (August 18, 2026), no material events occurred.

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

Gillon Beck
Chairman of the Board of Directors

Ram Drori
Chief Executive Officer

Date: August 18, 2026

Bet Shemesh Engines Holdings (1997) Ltd.

Chapter B – Financial Statements

Bet Shemesh Engines Holdings (1997) Ltd.

Condensed Consolidated Interim Financial Statements
As of June 30, 2026

Bet Shemesh Engines Holdings (1997) Ltd.

Condensed Consolidated Interim Financial Statements (Unaudited) as of June 30, 2026

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

Introduction

We have reviewed the accompanying financial information of Bet Shemesh Engines Holdings (1997) Ltd. and its subsidiaries (hereinafter – the "Group"), comprising the condensed consolidated statement of financial position as of June 30, 2026 and the condensed consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the six-month and three-month periods then ended. The Board of Directors and management are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard IAS 34 "Interim Financial Reporting", and are also responsible for the preparation of interim financial information for these periods in accordance with Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of the Review

We conducted our review in accordance with Review Standard (Israel) 2410 of the Institute of Certified Public Accountants in Israel, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the above financial information is not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to the foregoing paragraph, based on our review, nothing has come to our attention that causes us to believe that the above financial information does not comply, in all material respects, with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Somekh Chaikin
Certified Public Accountants

August 18, 2026

KPMG Somekh Chaikin, a registered 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.
Condensed Consolidated Interim Statements of Financial Position

	As of June 30		As of December 31
	2026	2025*	2025
	USD thousands	USD thousands	USD thousands
	Unaudited		Audited
<u>CURRENT ASSETS</u>			
Cash and cash equivalents	6,501	457	5,613
Trade receivables and contract assets	85,771	62,402	83,426
Other receivables and debit balances	17,394	13,887	12,148
Inventories	199,957	166,019	185,936
Total current assets	309,623	242,765	287,123
<u>Non-current assets</u>			
Contract costs and long-term receivables	18,875	15,626	17,226
Long-term inventories	402	1,084	311
Deferred tax assets	-	257	-
Property, plant and equipment	143,365	132,211	137,779
Intangible assets	23,084	25,393	24,082
Employee benefit assets	435	627	422
Long-term loans	250	-	250
Investments in associates	975	-	-
Total non-current assets	187,386	175,198	180,070
TOTAL ASSETS	497,009	417,963	467,193
<u>CURRENT LIABILITIES</u>			
Credit from banking corporations and other credit providers	1,732	59,640	1,126
Current maturities of loans from banking corporations	5,975	7,465	6,895
Trade payables	41,842	26,942	42,326
Other payables and credit balances	18,048	20,685	22,569
Contract liabilities	31,030	37,932	36,194
Employee benefit liabilities	17,671	14,120	16,726
Total current liabilities	116,298	166,784	125,836
<u>NON-CURRENT LIABILITIES</u>			
Loans from banking corporations	4,219	10,194	7,031
Employee benefit liabilities	3,894	3,290	3,461
Contract liabilities	22,981	632	10,839
Lease liabilities	3,814	4,263	4,089
Deferred tax liabilities	4,429	9,674	6,514
Put option	11,469	7,625	10,722
Total non-current liabilities	50,806	35,678	42,656
<u>EQUITY</u>			
Share premium	122,765	59,208	121,823
Capital reserves	3,162	7,791	3,102
Retained earnings	204,916	149,455	174,723
Treasury shares held by a subsidiary	(1,017)	(1,017)	(1,017)

Equity attributable to Company shareholders	329,826	215,437	298,631
Non-controlling interests	79	64	70
Total equity	329,905	215,501	298,701
TOTAL LIABILITIES AND EQUITY	497,009	417,963	467,193

Gillon Beck
Chairman of the Board of
Directors

Ram Drori
Chief Executive Officer

Dov Feldman
Chief Financial Officer

Date of approval of the financial statements: August 18, 2026

* Restated. See Note 6.

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2026	2025*	2026	2025*	2025
	Unaudited				Audited
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
Revenue from sales and work performed	180,624	150,842	91,447	76,887	314,083
Cost of sales and processing	136,994	111,860	70,279	57,572	236,880
Gross profit	43,630	38,982	21,168	19,315	77,203
Selling and marketing expenses	5,059	4,618	2,477	2,473	8,631
General and administrative expenses	8,908	7,280	4,636	3,715	15,171
Other expenses	32	35	(114)	33	679
Other income	(4,080)	(161)	(2,148)	(45)	(3,506)
The Company's share in profits of associates **	975	-	975	-	-
	8,944	11,772	3,876	6,176	20,975
Operating profit	34,686	27,210	17,292	13,139	56,228
Finance income	3,153	1,512	1,676	188	1,430
Finance expenses	(4,576)	(5,434)	(2,872)	(2,982)	(9,637)
Profit before income tax	33,263	23,288	16,096	10,345	48,021
Income tax expense	(2,554)	(4,917)	(93)	(2,786)	(4,507)
Net profit for the period	30,709	18,371	16,003	7,559	43,514
Attributable to:					
Company shareholders	30,193	17,942	15,743	7,177	42,711
Non-controlling interests	516	429	260	382	803
	30,709	18,371	16,003	7,559	43,514
Basic earnings per ordinary share of NIS 1 par value attributable to Company shareholders (in dollars)	3.30	2.06	1.72	0.82	4.89
Diluted earnings per ordinary share of NIS 1 par value attributable to Company shareholders (in dollars)	3.22	2.00	1.67	0.80	4.75

* Restated. See Note 6.

** See Note 1.a.

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2026	2025*	2026	2025*	2025
	Unaudited				Audited
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
Profit for the period	30,709	18,371	16,003	7,559	43,514
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
Amounts that will be reclassified subsequently to profit or loss, net of tax					
Effective portion of the change in the fair value of cash flow hedging instruments	(243)	2,021	-	2,813	(424)
Other comprehensive income (loss) for the period, net of tax	(243)	2,021	-	2,813	75
Total comprehensive income for the period	30,466	20,392	16,003	10,372	43,589
Total comprehensive income for the period attributable to:					
Company shareholders	29,950	19,963	15,743	9,990	42,786
Non-controlling interests	516	429	260	382	803
Total comprehensive income for the period	30,466	20,392	16,003	10,372	43,589

* Restated. See Note 6.

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	Share premium	Cash flow hedge reserve	Share-based payment reserve	Put option to minority reserve	Retained earnings	Treasury shares held by a subsidiary	Attributable to shareholders	Non- controlling interests	Total
	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands
For the six-month period ended June 30, 2026 (unaudited):									
Balance at January 1, 2026	121,823	243	4,558	(1,699)	174,723	(1,017)	298,631	70	298,701
Profit for the period	-	-	-	-	30,193	-	30,193	516	30,709
Other comprehensive loss for the period, net of tax	-	(243)	-	-	-	-	(243)	-*	(243)
Settlement of put options on non-controlling interests	-	-	-	(240)	-	-	(240)	(507)	(747)
Share-based payment	-	-	1,485	-	-	-	1,485	-	1,485
Exercise of share warrants	942	-	(942)	-	-	-	-	-	-
Total equity as of June 30, 2026	122,765	-	5,101	(1,939)	204,916	(1,017)	329,826	70	329,905

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	Share capital	Share premium	Cash flow hedge reserve	Share-based payment reserve	Put option to minority reserve	Retained earnings	Treasury shares held by a subsidiary	Attributable to shareholders	Non-controlling interests	Total
	USD Thousands	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)	193,269	57	193,326
Non-controlling interests from business combination	-	-	-	-	-	-	-	-	8,233	8,233
Profit for the period	-	-	-	-	-	17,942	-	17,942	429	18,371
Other comprehensive income for the period, net of tax	-	-	2,021	-	-	-	-	2,021	-*	2,021
Settlement of put options on non-controlling interests	-	-	-	-	1,031	-	-	1,031	(8,655)	(7,624)
Share-based payment	-	-	-	1,111	-	-	-	1,111	-	1,111
Exercise of share warrants	-	940	-	(877)	-	-	-	63	-	63
Cancellation of par value	(2,561)	2,561	-	-	-	-	-	-	-	-
Total equity as of June 30, 2025	-	59,208	2,688	4,072	1,031	149,455	(1,017)	215,437	64	215,501

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	Share premium	Cash flow hedge reserve	Share-based payment reserve	Put option to minority reserve	Retained earnings	Treasury shares held by a subsidiary	Attributable to shareholders	Non- controlling interests	Total
	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands
For the three-month period ended June 30, 2026 (unaudited)									
Balance at April 1, 2026	122,632	-	4,263	(1,815)	189,173	(1,017)	313,236	74	313,310
Profit for the period	-	-	-	-	15,743	-	15,743	260	16,003
Other comprehensive loss for the period, net of tax	-	-	-	-	-	-	-	-	-
Settlement of put options on non-controlling interests	-	-	-	(124)	-	-	(124)	(255)	(379)
Share-based payment	-	-	971	-	-	-	971	-*	971
Exercise of share warrants	133	-	(133)	-	-	-	-	-	-
Total equity as of June 30, 2026	<u>122,765</u>		<u>5,101</u>	<u>(1,939)</u>	<u>204,916</u>	<u>(1,017)</u>	<u>329,826</u>	<u>79</u>	<u>329,905</u>

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	Share capital	Share premium	Cash flow hedge reserve	Share-based payment reserve	Put option to minority reserve	Retained earnings	Treasury shares held by a subsidiary	Attributable to shareholders	Non-controlling interests	Total
	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands	USD Thousands
For the three-month period ended June 30, 2025 (unaudited):										
Balance at April 1, 2025	-	58,765	(125)	3,915	905	142,278	(1,017)	204,721	61	204,782
Profit for the period	-	-	-	-	-	7,177	-	7,177	382	7,559
Other comprehensive income for the period, net of tax	-	-	2,813	-	-	-	-	2,813	-*	2,813
Settlement of put options on non-controlling interests	-	-	-	-	126	-	-	126	(379)	(253)
Share-based payment	-	-	-	537	-	-	-	537	-*	537
Exercise of share warrants	-	443	-	(380)	-	-	-	63	-	63
Cancellation of par value	-	-	-	-	-	-	-	-	-	-
Total equity as of June 30, 2025	-	59,208	2,688	4,072	1,031	149,455	(1,017)	215,437	64	215,501

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	Share capital	Share premium	Cash flow hedge reserve	Share-based payment reserve	Put option to minority reserve	Retained earnings	Treasury shares held by a subsidiary	Attributable to shareholders	Non-controlling interests	Total
	USD Thousands	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 (audited):										
Balance as of January 1, 2025	2,561	55,707	667	3,838	-	131,513	(1,017)	193,269	57	193,326
Non-controlling interests from a business combination	-	-	-	-	-	-	-	-	8,233	8,233
Profit for the year	-	-	-	-	-	42,711	-	42,711	803	43,514
Other comprehensive income for the year, net of tax	-	-	(424)	-	-	499	-	75	-*	75
Share issuance	-	62,021	-	-	-	-	-	62,021	-	62,021
Settlement of put options on non-controlling interests	-	-	-	-	(1,699)	-	-	(1,699)	(9,023)	(10,722)
Share-based payment	-	-	-	2,190	-	-	-	2,190	-*	2,190
Exercise of share warrants	-	1,534	-	(1,470)	-	-	-	64	-	64
Cancellation of par value	(2,561)	2,561	-	-	-	-	-	-	-	-
Total equity as of December 31, 2025	-	121,823	243	4,558	(1,699)	174,723	(1,017)	298,631	70	298,701

* Amount less than USD 1 thousand.

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2026	2025*	2026	2025*	2025
	Unaudited				Audited
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
<u>Cash flows provided by (used in) operating activities</u>					
Profit for the period	30,709	18,371	16,003	7,559	43,514
Adjustments required to present cash flows from operating activities – Appendix A	(14,104)	(10,680)	(21,684)	1,972	(13,337)
Cash flows provided by (used in) operating activities	16,605	7,691	(5,681)	9,531	30,177
<u>Cash flows used in investing activities</u>					
Purchase of property, plant and equipment	(12,392)	(11,413)	(5,735)	(5,218)	(23,951)
Investment grant received	139	-	-	-	485
Proceeds from disposal of property, plant and equipment	14	6	14	2	372
Expenses in respect of the sale of real estate held for sale	-	-	-	-	(1,533)
Loans granted to an investee company	-	-	-	-	(250)
Acquisition of a subsidiary, net of cash acquired	-	(32,896)	-	368	(32,896)
Interest received	149	184	68	4	192
Cash flows used in investing activities	(12,090)	(44,119)	(5,653)	(4,844)	(57,581)
<u>Cash flows provided by (used in) financing activities</u>					
Proceeds from share issuance	-	-	-	-	62,021
Short-term credit from banking corporations, net	338	43,392	358	(1,012)	(15,410)
Repayment of long-term loans	(3,732)	(3,733)	(1,866)	(1,866)	(7,465)
Interest paid	(880)	(2,503)	(466)	(1,610)	(5,386)
Repayment of principal of lease liabilities	(620)	(373)	(355)	(196)	(845)
Cash flows provided by (used in) financing activities	(4,894)	36,783	(2,329)	(4,684)	32,915
<u>Effect of exchange rate changes on cash and cash equivalents</u>	1,087	-	299	-	-
Increase (decrease) in cash and cash equivalents	708	355	(13,364)	3	5,511
Cash and cash equivalents at the beginning of the period	5,613	102	19,685	454	102
Cash and cash equivalents at the end of the period	6,321	457	6,321	457	5,613

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

	For the six-month period ended June 30		For the three-month period ended June 30		For the year ended December 31
	2026	2025*	2026	2025*	2025
	Unaudited				Audited
	USD thousands	USD thousands	USD thousands	USD thousands	USD thousands
<u>Appendix A – Adjustments required to present cash flows from operating activities:</u>					
Income and expenses not involving cash flows					
The Company's share in profits of associates	(975)	-	(975)	-	-
Depreciation and amortization	7,457	7,198	3,724	3,863	14,522
Income tax expense	2,554	4,917	93	2,785	4,507
Loss (gain) on disposal of property, plant and equipment	62	(3)	51	1	(316)
Finance expenses, net	1,423	2,310	1,196	1,968	6,577
Share-based payment transactions	1,485	1,111	971	537	2,190
Total income and expenses not involving cash flows	12,006	15,533	5,060	9,154	27,480
Changes in asset and liability items					
Increase in contract costs and long-term receivables	(2,801)	(1,649)	(1,395)	(695)	(4,195)
Decrease (increase) in trade receivables and contract assets	(430)	(12,996)	(6,615)	11,601	(34,020)
Decrease (increase) in other receivables and debit balances	(1,515)	(2,353)	956	(2,461)	(4,040)
Increase in inventories	(14,021)	(13,166)	(6,997)	(3,508)	(33,083)
Decrease (increase) in long-term inventories	(91)	(54)	(187)	4	719
Increase (decrease) in trade payables	(3,402)	(2,794)	2,285	(1,344)	15,569
Decrease in other payables and credit balances	(9,990)	(3,804)	(5,894)	(3,965)	(800)
Change in vacation provision	930	785	(84)	287	710
Change in long-term employee benefit assets	(13)	(63)	(36)	(38)	528
Change in long-term employee benefit liabilities	433	420	307	425	820
Increase (decrease) in contract liabilities	4,790	9,461	(9,084)	(7,488)	16,975
Total changes in asset and liability items	(26,110)	(26,213)	(26,744)	(7,182)	(40,817)
	(14,104)	(10,680)	(21,684)	1,972	(13,337)
<u>Appendix B – Material non-cash transactions:</u>					
Purchase of property, plant and equipment on credit	579	615	139	132	1,624
<u>Appendix C – Cash taxes:</u>					
Tax payments	9,993	3,443	2,650	3,338	3,416

The accompanying Notes are an integral part of these condensed consolidated interim financial statements.

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

Note 1 – General

a. The Reporting Entity

Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the "Company") was incorporated in Israel on November 2, 1997. Its principal place of business is the Western Industrial Zone in Bet Shemesh. The Company, through investee companies, is engaged in engine overhaul, precision castings and the manufacture of jet engine parts.

The Company's share in the profits of associates relates to Jet Cat Defence Inc. and Jet Cat Defence Israel Ltd.

The condensed consolidated financial statements of the Group as of June 30, 2026 include those of the Company and of its subsidiaries (hereinafter jointly: the "Group").

b. Material Events During the Reporting Period

1. As of the date of publication of the report, the State of Israel is engaged in 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"). On February 28, 2026, the State of Israel and the United States launched a combined attack on Iran, striking Iran's missile arrays and various targets of the Iranian regime. In response, the Iranian regime began launching missiles and UAVs toward the State of Israel and toward additional countries in the region. On March 1, the campaign was also extended to Lebanon following fire directed at the State of Israel by the Hezbollah organization. At the commencement of the operation, it was decided to transition all areas of the country from a state of full activity to a state of essential activity only, which includes a prohibition on the holding of educational activities, gatherings and attendance at workplaces, other than workplaces defined as essential to the economy. In addition, a further call-up of reserve forces was carried out for the purposes of the operation. On April 8, 2026, it was published that the United States and Iran had announced understandings for a temporary ceasefire for a limited period, which were formulated through the mediation of international parties. The Government of Israel announced that it had agreed to the ceasefire in coordination with the United States. According to the publications, the ceasefire does not apply in full to the Lebanese arena, and during the period continued exchanges of fire and pinpoint strikes in Lebanon between the IDF and the Hezbollah organization were reported, until a ceasefire was declared on this front as well on April 15. At this stage, the Company is unable to assess the impact of the operation on its financial position, its results of operations and its cash flows, if any.
2. On March 9, 2026, the Company's subsidiary, Bet Shemesh Engines Ltd., entered into an expansion of the existing engagements with an existing customer in the parts segment, an international manufacturer in the aviation and engines field. Under the expansion, new items were added to the most advanced engine programs in the aviation world, item prices were updated, and the Company's supply share was increased. The product supply period is until the end of 2032. The value of the expansion and the other matters agreed with the customer is estimated at approximately USD 80 million over the period.
3. On March 16, 2026, a jointly controlled company, 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 defense programs for the U.S. Government and additional defense agencies. The order amounts to approximately USD 10.2 million for supply during 2026, subject to the completion of a certification process. In addition, the Company estimates that further orders are expected to be received from this customer for supply commencing in 2027.

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

Note 1 – General (continued)

4. On March 24, 2026, the Company's Board of Directors resolved to publish an offering memorandum for the purpose of allocating, 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 of companies related to the Company, pursuant to the memorandum and the option plan. The grant date fell in May 2026. In addition, the Company's Board of Directors resolved to approve a non-material and non-extraordinary allocation of 1,000 options to a grantee who is a service provider and not an employee.
5. In April 2026, a jointly controlled company, Jet Cat Defence Israel Ltd., which operates in Israel in the supply of small engines as part of the engines segment, received a first order with an expected scope of approximately USD 29 million for the supply of small engines to a new customer of the Group during 2027. In addition, the customer holds an option for an additional order with an expected scope of approximately USD 27 million for supply during 2028, subject to compliance with milestones as defined in the order.
6. In April 2026, a jointly controlled company, Jet Cat Defence Inc., received an additional order with an expected scope of approximately USD 20 million for the supply of small engines to a new customer of the Group during 2027. In addition, the customer holds an option for an additional order with an expected scope of approximately USD 13 million for supply during 2028, subject to compliance with milestones as defined in the order.
7. On May 20, 2026, the subsidiary Bet Shemesh Engines Ltd. received an additional order from a customer of the Company for the development and manufacture of jet engines, in the amount of approximately USD 148 million.
8. For events after the reporting date, see Note 9.

Note 2 – Basis of Preparation of the Financial Statements

a. Statement of Compliance with International Financial Reporting Standards

The condensed consolidated interim financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting, and do not include all the information required in full annual financial statements. They should be read together with the financial statements as of and for the year ended December 31, 2025 (hereinafter: the "Annual Financial Statements"). In addition, these statements have been prepared in accordance with the provisions of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The condensed consolidated interim financial statements were approved for publication by the Group's Board of Directors on August 18, 2026.

b. Use of Estimates and Judgment

In preparing the condensed consolidated interim financial statements in accordance with IFRS®, the Company's management is required to exercise judgment in making assessments, estimates and assumptions that affect the application of the accounting policies and the amounts of assets and liabilities, income and expenses. It is clarified that actual results may differ from these estimates.

Management's judgment, in applying the Group's accounting policies, and the principal assumptions used in estimates involving uncertainty, are consistent with those used in the preparation of the Annual Financial Statements.

Note 3 – Material Accounting Policies

The Group's accounting policies in these condensed consolidated interim financial statements are the accounting policies applied in the Annual Financial Statements for 2025. See Note 3, regarding material accounting policies, in the Annual Financial Statements.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

Note 4 – Segments

a. General:

The basis of segmentation and the basis of measurement of segment profit or loss are identical to those presented in Note 30, regarding operating segments, in the Annual Financial Statements.

The accounting policies of the operating segments are identical to those presented in Note 3, regarding material accounting policies, in the Annual Financial Statements.

Set forth below are the Group's operating segments in accordance with IFRS 8:

Segment A – manufacture of jet engine parts, including the manufacture of precision castings of metal parts for jet engines.

Segment B – overhaul, engineering, manufacture and assembly of jet engines.

b. Analysis of Revenue and Results by Operating Segment

For the six-month period ended June 30, 2026				
Unaudited				
	Parts manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenue from external customers	98,371	82,253	-	180,624
Inter-segment revenue	5,067	198	(5,265)	-
Total segment revenue	103,438	82,451	(5,265)	180,624
Reported profit – operating profit	14,910	21,152	(1,376)	34,686
Cost of sales and processing	86,933	54,985	(4,924)	136,994
Depreciation and amortization expenses	4,992	1,127	1,338	7,457

For the six-month period ended June 30, 2025				
Unaudited				
	Parts manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenue from external customers	84,418	66,424	-	150,842
Inter-segment revenue	4,566	346	(4,912)	-
Total segment revenue	88,984	66,770	(4,912)	150,842
Reported profit – operating profit	11,265	17,094	(1,149)	27,210
Cost of sales and processing	72,684	43,069	(3,893)	111,860
Depreciation and amortization expenses	5,597	517	1,084	7,198

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

Note 4 – Segments (continued)

	For the three-month period ended June 30, 2026			
	Unaudited			
	Parts manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenue from external customers	49,491	41,956	-	91,447
Inter-segment revenue	2,986	78	(3,064)	-
Total segment revenue	52,477	42,034	(3,064)	91,447
Reported profit – operating profit	8,537	9,431	(676)	17,292
Cost of sales and processing	43,285	29,831	(2,837)	70,279
Depreciation and amortization expenses	2,481	575	668	3,724

	For the three-month period ended June 30, 2025			
	Unaudited			
	Parts manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenue from external customers	41,627	35,260	-	76,887
Inter-segment revenue	2,315	281	(2,596)	-
Total segment revenue	43,942	35,541	(2,596)	76,887
Reported profit (loss) – operating profit	4,789	9,061	(711)	13,139
Cost of sales and processing	36,668	22,806	(1,902)	57,572
Depreciation and amortization expenses	2,835	298	730	3,863

	For the year ended December 31, 2025			
	Audited			
	Parts manufacturing	Engines	Adjustments	Total
	USD thousands			
Revenue from external customers	171,984	142,099	-	314,083
Inter-segment revenue	12,504	908	(13,412)	-
Total segment revenue	184,488	143,007	(13,412)	314,083
Reported profit (loss) – 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 Condensed Consolidated Interim Financial Statements

Note 5 – Revenue from Contracts with Customers

1. Disaggregation of Revenue

In the following tables, the Group's revenue is disaggregated by customer. The tables also include a reconciliation of the disaggregated revenue to the Group's reportable segments.

For further information regarding reportable segments, see Note 4, regarding operating segments.

For the six-month period ended June 30, 2026			
Unaudited			
Reportable segments			
	Parts manufacturing	Engines	Total
	USD thousands	USD thousands	USD thousands
Customer C	-	28,018	28,018
Customer A	24,811	-	24,811
Customer B	21,146	-	21,146
Customer D	12,957	-	12,957
Others	39,457	54,235	93,692
	98,371	82,253	180,624

For the six-month period ended June 30, 2025			
Unaudited			
Reportable segments			
	Parts manufacturing	Engines	Total
	USD thousands	USD thousands	USD thousands
Customer A	25,264	-	25,264
Customer C	-	19,674	19,674
Customer B	15,304	-	15,304
Others	43,850	46,750	90,600
	84,418	66,424	150,842

For the three-month period ended June 30, 2026			
Unaudited			
Reportable segments			
	Parts manufacturing	Engines	Total
	USD thousands	USD thousands	USD thousands
Customer C	-	13,396	13,396
Customer A	12,671	-	12,671
Customer B	10,475	-	10,475
Customer E	-	7,073	7,073
Others	26,345	21,487	47,832
	49,491	41,956	91,447

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

Note 5 – Revenue from Contracts with Customers (continued)

For the three-month period ended June 30, 2025			
Unaudited			
Reportable segments			
	Parts manufacturing	Engines	Total
	USD thousands	USD thousands	USD thousands
Customer A	12,387	-	12,387
Customer C	-	9,519	9,519
Customer B	7,696	-	7,696
Others	21,545	25,740	47,285
	41,628	35,259	76,887

For the year ended December 31, 2025			
Audited			
Reportable segments			
	Parts manufacturing	Engines	Total
	USD thousands	USD thousands	USD thousands
Customer A	52,057	-	52,057
Customer C	-	39,380	39,380
Customer B	32,314	-	32,314
Customer E	-	26,203	26,203
Others	87,613	76,516	164,129
	171,984	142,099	314,083

2. Contract Balances

The following table provides information regarding contract assets and contract liabilities arising from contracts with customers.

	As of June 30		As of December 31
	2026	2025	2025
	Unaudited		Audited
	USD thousands	USD thousands	USD thousands
Contract assets	6,927	5,501	5,029
Contract liabilities	54,011	38,564	47,033

Customer advances recognized as revenue during the period amounted to USD 9,234 thousand.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

Note 6 – Business Combination Occurring in a Prior Period and Measured in Prior Periods at Provisional Amounts

As described in Note 7, regarding investments in investee companies, in the Annual Financial Statements, on March 3, 2025 the Group acquired 80% of the shares of a subsidiary.

The Group's financial statements as of June 30, 2025 included provisional amounts. Upon completion of the independent valuation for the business combination, the amounts were retrospectively adjusted as follows:

Effect on the statement of financial position

As of June 30, 2025 (unaudited)			
	As previously reported	Effect of the retrospective adjustment of provisional amounts	As reported in these financial statements
	USD thousands		
Intangible assets	23,628	1,764	25,392
Deferred tax liabilities	9,873	(197)	9,676
Put option	6,614	1,010	7,624
Capital reserves	6,760	1,031	7,791
Retained earnings balance	149,533	(78)	149,455

Effect on the statement of profit or loss and the statement of profit or loss and other comprehensive income

For the six-month period ended June 30, 2025 (unaudited)			
	As previously reported	Effect of the retrospective adjustment of provisional amounts	As reported in these financial statements
	USD thousands		
Selling and marketing expenses	4,696	78	4,618
Finance expenses	(5,717)	283	(5,434)
Income tax expense	(4,900)	(17)	(4,917)
Profit for the period	18,027	344	18,371
Profit for the period attributable to the owners of the Company	18,020	(78)	17,942
Basic earnings per share	2.07	(0.01)	2.06
Diluted earnings per share	2.01	(0.01)	2.00
Comprehensive income attributable to the owners of the Company	20,041	(78)	17,150

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

Note 6 – Business Combination Occurring in a Prior Period and Measured in Prior Periods at Provisional Amounts(continued)

	For the three-month period ended June 30, 2025 (unaudited)		
	As previously reported	Effect of the retrospective adjustment of provisional amounts	As reported in these financial statements
	USD thousands		
Selling and marketing expenses	2,531	58	2,473
Finance expenses	(3,265)	284	(2,981)
Income tax expense	(2,774)	(13)	(2,787)
Profit for the period	7,230	329	7,559
Profit for the period attributable to the owners of the Company	7,227	(50)	7,177
Basic earnings per share	0.83	(0.01)	0.82
Diluted earnings per share	0.80	-	0.80
Comprehensive income attributable to the owners of the Company	10,040	(50)	7,177

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

Note 7 – Commitment to Purchase Property, Plant and Equipment

Through June 30, 2026, the Group signed future orders for the purchase of property, plant and equipment in the amount of approximately USD 22.7 million.

Note 8 – Loans and Credit

Financial covenants:

The Company has undertaken to comply with covenants that are examined on the basis of the Company's consolidated quarterly and annual financial statements over four consecutive quarters, where failure to comply with the said financial covenants constitutes grounds for early repayment of the loan:

1. Tangible equity shall not be less than USD 80 million, and the ratio of equity to total assets shall not be less than 30%. During the Reporting Period, the Company is in compliance with the covenant.
2. The debt-to-EBITDA ratio shall not exceed 4.5 at any time. During the Reporting Period, the Company is in compliance with the covenant.

Note 9 – Events After the Reporting Date

1. On August 18, 2026, the Company's Board of Directors approved a private placement of 1,500 options, which are not listed for trading and are not transferable, to an employee of an associate of the Company, all in accordance with the Company's option plan.

Bet Shemesh Engines Holdings (1997) Ltd.

Notes to the Condensed Consolidated Interim Financial Statements

Note 10 – Financial Instruments

a. Financial Instruments Not Measured at Fair Value

The carrying amount of certain financial assets and financial liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, short-term loans and credit, trade payables and other payables, is equal or close to their fair value.

b. Financial Instruments Measured at Fair Value

1. Fair value hierarchy of instruments measured at fair value

The table below presents an analysis of the financial instruments measured at fair value on a recurring basis, using a valuation method in accordance with the fair value levels in the hierarchy. The various levels are defined as follows:

- Level 1: quoted prices (unadjusted) in an active market for identical instruments.
- Level 2: observable inputs, directly or indirectly, that are not included in Level 1 above.
- Level 3: inputs that are not based on observable market data.

Level 2

	As of June 30		As of December 31
	2026	2025	2025
	Unaudited		Audited
	USD thousands		
Financial assets			
Forward contracts, options and swap transactions on exchange rates used for hedging	-	2,689	243
Forward contracts, options and swap transactions on exchange rates not used for hedging	-	189	(253)
	-	2,878	10
Financial liabilities			
Forward contracts, options and swap transactions on exchange rates not used for hedging	-	-	10
	-	-	10

2. Information regarding fair value measurements of Level 2 and Level 3 financial instruments:

Financial instrument	Valuation techniques used to determine fair value and the types of inputs used
Forward contract (Forward) / swap transactions (SWAP)	The fair value of these transactions is calculated as the dollar difference between the amount that the Company will be required to pay under the terms of the original transaction and the dollar amount for which an identical quantity of shekels can currently be purchased, in accordance with the forward rate for the remaining life of the transaction derived from current market conditions, including: the USD/NIS exchange rate, dollar interest and shekel interest.
Options	The fair value of each of the options represents the premium that would currently be paid/received in respect of the purchase/sale of an option having identical characteristics, under current market conditions. The value takes into account the following variables: the spot rate at the date of execution of the transaction, the exercise price of the option, the effective risk-free interest rate in the primary currency, the effective risk-free interest rate in the secondary currency, the period until expiry in years, and the volatility derived from the exchange rate.

Bet Shemesh Engines Holdings (1997) Ltd.

Chapter C – Quarterly Report Regarding the Effectiveness of Internal Control and Management Declarations

Quarterly Report Regarding the Effectiveness of Internal Control over Financial Reporting and Disclosure pursuant to Regulation 38C(a) of the Securities Regulations (Periodic and Immediate Reports), 1970, for the period ended June 30, 2026

Management, under the supervision of the Board of Directors of Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the "Corporation"), is responsible for establishing and maintaining adequate internal control over financial reporting and disclosure in the Corporation.

For this purpose, the members of management are:

1. Ram Drori, Chief Executive Officer;
2. Dov Feldman, Chief Financial Officer.

Internal control over financial reporting and disclosure includes the Corporation's existing controls and procedures, which have been designed by the Chief Executive Officer and the most senior officer in the finance field, or under their supervision, or by those actually performing the said functions, under the supervision of the Corporation's Board of Directors, and which are intended to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of law, and to ensure that information that the Corporation is required to disclose in the reports it publishes under the provisions of law is gathered, processed, summarized and reported within the timeframe and in the format prescribed by law.

Internal control includes, inter alia, controls and procedures that have been designed to ensure that information that the Corporation is required to disclose as aforesaid is accumulated and transferred to the Corporation's management, including to the Chief Executive Officer and to the most senior officer in the finance field, or to those actually performing the said functions, in order to enable decisions to be made at the appropriate time, with respect to the disclosure requirement.

Due to its inherent limitations, internal control over financial reporting and disclosure is not intended to provide absolute assurance that a misstatement or omission of information in the reports will be prevented or detected.

Management, under the supervision of the Board of Directors, performed an examination and evaluation of the internal control over financial reporting and disclosure in the Corporation and its effectiveness.

In the quarterly report regarding the effectiveness of internal control over financial reporting and disclosure that was attached to the quarterly report for the period ended March 31, 2026 (hereinafter: the "**Most Recent Quarterly Report Regarding Internal Control**"), the Board of Directors and management evaluated the internal control in the Corporation; based on this evaluation, the Board of Directors and management of the Corporation concluded that the internal control as aforesaid, as of March 31, 2026, is effective.

Through the date of the report, no event or matter has been brought to the attention of the Board of Directors and management that would change the evaluation of the effectiveness of the internal control, as presented in the Most Recent Quarterly Report Regarding Internal Control.

As of the date of the report, based on the evaluation of the effectiveness of the internal control in the Most Recent Quarterly Report Regarding Internal Control, and based on information brought to the attention of management and the Board of Directors as stated above, the internal control is effective.

Declaration of the Chief Executive Officer pursuant to Regulation 38C(d)(1)

Managers' Declaration

Declaration of the Chief Executive Officer

I, Ram Drori, declare that:

- (1) I have examined the quarterly report of Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the **"Corporation"**) for the second quarter of 2026 (hereinafter: the **"Reports"**);
- (2) To my knowledge, the Reports do not include any misrepresentation of a material fact and do not omit any representation of a material fact necessary in order that the representations included therein, in light of the circumstances under which such representations were included, shall not be misleading with respect to the period of the Reports;
- (3) To my knowledge, the financial statements and other financial information included in the Reports fairly reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and for the periods to which the Reports relate;
- (4) I have disclosed to the Corporation's independent auditor, to the Board of Directors and to the Audit Committee of the Corporation's Board of Directors, based on my most recent evaluation regarding the internal control over financial reporting and disclosure:
 - (a) all the significant deficiencies and material weaknesses in the establishment or operation of the internal control over financial reporting and disclosure which could reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner that casts doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of law; and also –
 - (b) any fraud, whether material or not, in which the Chief Executive Officer or anyone directly subordinate to him is involved, or in which other employees who have a significant role in the internal control over financial reporting and disclosure are involved;
- (5) I, alone or together with others in the Corporation:
 - (a) have established controls and procedures, or verified the establishment and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its consolidated companies as defined in the Securities Regulations (Annual Financial Statements), 2010 is brought to my attention by others in the Corporation and in the consolidated companies, in particular during the period of preparation of the Reports; and also –
 - (b) have established controls and procedures, or verified the establishment and existence of controls and procedures under my supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles;
 - (c) no event or matter has been brought to my attention that occurred during the period between the date of the most recent periodic report and the date of this quarterly report which would change the conclusion of the Board of Directors and management regarding the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

Nothing in the foregoing derogates from my responsibility or from the responsibility of any other person, under any law.

August 18, 2026

Ram Drori, Chief Executive Officer

**Declaration of the Most Senior Officer in the Finance Field pursuant to Regulation
38C(d)(2)**

Managers' Declaration

Declaration of the Chief Financial Officer

I, Dov Feldman, declare that:

- (1) I have examined the interim financial statements and the other financial information included in the reports for the interim period of Bet Shemesh Engines Holdings (1997) Ltd. (hereinafter: the **"Corporation"**) for the second quarter of 2026 (hereinafter: the **"Reports"**);
- (2) To my knowledge, the financial statements and the other financial information included in the Reports do not include any misrepresentation of a material fact and do not omit any representation of a material fact necessary in order that the representations included therein, in light of the circumstances under which such representations were included, shall not be misleading with respect to the period of the Reports;
- (3) To my knowledge, the financial statements and other financial information included in the Reports fairly reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation as of the dates and for the periods to which the Reports relate;
- (4) I have disclosed to the Corporation's independent auditor, to the Board of Directors and to the Audit Committee of the Corporation's Board of Directors, based on my most recent evaluation regarding the internal control over financial reporting and disclosure:
 - (a) all the significant deficiencies and material weaknesses in the establishment or operation of the internal control over financial reporting and disclosure, insofar as it relates to the financial statements and to the other financial information included in the Reports, which could reasonably adversely affect the Corporation's ability to gather, process, summarize or report financial information in a manner that casts doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of law; and also –
 - (b) any fraud, whether material or not, in which the Chief Executive Officer or anyone directly subordinate to him is involved, or in which other employees who have a significant role in the internal control over financial reporting and disclosure are involved;
- (5) I, alone or together with others in the Corporation:
 - (a) have established controls and procedures, or verified the establishment and existence of controls and procedures under my supervision, designed to ensure that material information relating to the Corporation, including its consolidated companies as defined in the Securities Regulations (Annual Financial Statements), 2010, insofar as it is relevant to the financial statements and to the other financial information included in the Reports, is brought to my attention by others in the Corporation and in the consolidated companies, in particular during the period of preparation of the Reports; and also –
 - (b) have established controls and procedures, or verified the establishment and existence of controls and procedures under our supervision, designed to reasonably ensure the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of law, including in accordance with generally accepted accounting principles;
 - (c) no event or matter has been brought to my attention that occurred during the period between the date of the most recent periodic report and the date of this quarterly report, relating to the interim financial statements and to any other financial information included in the reports for the interim period, which would change, in my evaluation, the conclusion of the Board of Directors and management regarding the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

Nothing in the foregoing derogates from my responsibility or from the responsibility of any other person, under any law.

August 18, 2026

Dov Feldman, Chief Financial Officer