15 September 2017

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

Interim results for the six months ended 30 June 2017

Ethernity Networks Ltd (AIM: ENET.L), a technology solutions provider developing network data processing technology used in high-end carrier Ethernet applications across the telecom, mobile, security and data centre markets, announces its interim results for the six months ended 30 June 2017.

Financial summary:

- Revenues of $988,995 (H1 2016: $1,309,138)
- Gross profit of $857,884 (H1 2016: $662,674)
- EBITDA of $441,292 (EBITDA H1 2016: $278,504)
- Operating Profit of $379,884 (H1 2016 $263,578)
- Strong cash balance at 30 June 2017 of $18.2m

EBITDA	**Unaudited 30 June**			**Audited 31 December**
	2017 US$	**2016 US$**	**Difference US$**	**2016 US$**
Operating Profit	**379,884**	**263,578**	**116,306**	**338,501**
Add: Depreciation	7,051	8,263	(1,212)	16,794
Add: Amortisation	54,357	6,663	47,694	34,438
EBITDA	**441,292**	**278,504**	**162,788**	**389,733**

Operational highlights:

- Successful IPO and admission to AIM on 29 June 2017, raising £15 million in the process
- Signed three new design contracts in three lucrative markets; SD-WAN, g.fast and 5G NLOS wireless
- Expansion of sales team, broadening reach into international markets
- Continued investment in R&D to secure future design wins and develop the solutions demanded by the marketplace

David Levi, Chief Executive Officer of Ethernity Networks, commented:

"The first half saw a series of achievements and culminated in the Company's successful AIM IPO and £15 million of new investment subscribed by UK-based investment funds. During the period, we introduced our all-programmable Smart NIC and gained initial market traction from tier one network operators, requesting proof of concepts to accelerate certainty of their networking functions by utilising our Smart NIC. Our improved sales mix and three new design contract wins also helped to increase our profitability.

"With the significant push towards the use of Field-Programmable Gate Array (FPGA) for network function acceleration, we are very excited about the future. The new funding within the Company, resulting from the IPO is allowing Ethernity to make the necessary investment to build our Sales and Marketing function, as well as to increase our R&D capabilities. We look forward to updating the market in due course on our further progress.

"We remain confident that Ethernity will meet its long term objectives and will be positioned as one of the key solutions providers in its marketplace."

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OPERATIONAL REVIEW

During the period under review, Ethernity introduced its all-programmable Smart NIC, (network interface controller) and gained initial market traction from tier one network operators, requesting proof of concepts to accelerate certainty of their networking functions by utilising our Smart NIC.

The Company sees a significant push towards the use of FPGA for network function acceleration. FPGA will become the major platform within next generation servers, as Intel for example, plans to embed high-performance FPGA within its next generation Xeon server processors. This will create the ability to write hardware code on servers in the same way that software has been designed previously on processors. Furthermore, with the market adoption of open source software, Ethernity is well positioned to deliver enhanced open-source solutions for carrier grade appliances by utilising Ethernity's unique, patented, data processing technology.

During the period, the Company signed three design contracts for its standard ENET Carrier Ethernet SoC firmware on FPGA, in three lucrative markets; SD-WAN, g.fast and 5G NLOS wireless. Each of these contracts proved the broad market opportunity for Ethernity's unique and innovative networking technology. In all three wins, Ethernity's proposed solution on FPGA outperformed off-the-shelf application specific integrated circuits (ASICs) in several aspects, including power consumption and advanced features that were not available on ASICs, in addition to competitive pricing. The three design wins utilise the same FPGA component and technology, thus the Company will benefit from enhanced FPGA pricing that will better position this solution against off-the-shelf ASICs. Furthermore, the contracts should deliver increased gross margins, due to economies of scale.

On 29th June, the Company completed an oversubscribed IPO on the London Stock Exchange's AIM market, raising £15 million. The Company intends to utilise the funds to strengthen its balance sheet as well as investing significantly in marketing, branding, and ongoing R&D in new solutions. This is to meet market demand and to help secure the Company's future anticipated growth.

Since the period end, Ethernity has successfully completed proof-of-concept (POC) of integration in several customer environments for its All-Programmable Intelligent NIC. The Company performed offloading for both Virtual Network Functions (VNFs) and overlay infrastructure, all on a single low-cost FPGA device with Ethernity's patented flow processing engine. The customers successfully tested Ethernity's solutions for applications such as a virtual switch, tunnel offloading, monitoring and billing, and special telecom features, demonstrating the range of the Company's product offerings to its customers.

Outlook

The Board remains confident that Ethernity will meet its long-term objectives and will be well positioned as one of the key solutions providers in its marketplace. Network service providers are requiring more flexible solutions to their technology and network needs for offloading support of new data appliances introduced by the market. Ethernity believes it has the best-in-class system solutions to address these needs. The Company is trading in-line with its forecast and expects to meet its future targets.

FINANCIAL REVIEW

During the period under review, the Company delivered revenues of $988,995 and a gross profit of $857,884. The gross profit percentage of 86.7% (H1 2016: 50.6%) is significantly higher compared to H1 2016 due to the different product mix within the revenues, where design wins and royalty revenues attracts a near 100% margin. EBITDA in the first six months of the year was $441,292 (EBITDA H1 2016: $278,504).

Operating expenses (including share-based compensation costs), as a percentage of revenues, were 49.2% in H1 2017 (H1 2016: 30.5%). The increases are mainly attributable to increased spending on Marketing & Selling costs in-line with the Company's objectives and an increase in General & Administration expenses, specifically in preparation for the Company's IPO. The Company anticipates an increase in its net R&D

expenses, in-line with expectation and plans, as well as Marketing and Sales expenses as it builds its teams to make the most of the opportunities in the market and to accelerate market penetration.

The loss on foreign exchange in H1 is attributable mainly to the strengthening of the Israeli Shekel by 9.1% during the period under review. Subsequent to the 30 June 2017 period, the Company realised a foreign exchange gain on the conversion of IPO funds raised from GBP to US Dollars; this is expected to significantly counteract the H1 foreign exchange loss.

Cash and cash equivalents increased to $18.2 million as at 30 June 2017, following the receipt of the net proceeds of the IPO and currently the Company is trading in line with its budgeted expectations for the current year.

The table below represents the revenues by geographical locations. It confirms Ethernity's objective of increasing revenues outside of Israel as well as the effect of design wins in the Company's international markets.

Sector Analysis 2017		**2017**	**2016**
Region	**Revenue**	**%**	**%**
Asia	20,000	2.02%	0.00%
Europe	409,836	41.44%	24.53%
Israel	183,509	18.56%	50.47%
United States	375,650	37.98%	25.00%
Total	**988,995**	**100.00%**	**100.00%**

Whilst revenue declined in the period within the sales mix in comparison to the previous year, the comparable gross margin and net profitability on revenue for the period increased substantially. A further encouraging development in the period was the increase in revenue generated from design wins. These design wins specifically relate to the Company's new market offering and underpin the long-term revenue forecasts and outlook for the Company. This revenue has increased over the previous comparable period by almost 200%.

Gross margin strengthened due to the effects of the increased contribution from design wins, which has translated to the growth in EBITDA over the previous period. Increases in R&D, Marketing & Selling and General & Admission expenses are as budgeted and overall the Company is trading in line with expectations, with operating profit having increased by 44.1% compared to H1 2016.

BOARD OF DIRECTORS

An EGM of the Shareholders of Ethernity is anticipated to be held in the near future to approve the appointment of two additional external Directors, so as to ensure compliance with Israel Companies Law 5759-1999 ("**Companies Law"**) as noted in the Admission Document of the Company published on 29 June 2017. The Company and the Board of Directors remain committed to adhering to a high-level of corporate governance.

FORWARD LOOKING STATEMENTS

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

Interim Unaudited Financial Statements
as at 30 June 2017

STATEMENTS OF FINANCIAL POSITION

	US dollars	
	30 June	31 December
	2017	2016
	(Unaudited)	(Audited)
ASSETS		
Current		
Cash and cash equivalents	18,237,580	335,723
Other short-term financial assets	64,359	58,518
Trade receivables	390,814	268,309
Other current assets	38,119	28,725
Current assets	**18,730,872**	**691,275**
Non-Current		
Property and equipment	48,108	69,939
Deferred tax assets	800,000	800,000
Intangible assets	1,836,306	1,305,898
Non-current assets	**2,684,414**	**2,175,837**
Total assets	**21,415,286**	**2,867,112**
LIABILITIES AND EQUITY		
Current		
Borrowings	319,440	160,256
Trade payables	129,110	121,960
Other liabilities	1,594,311	1,191,291
Shareholders loans	502,217	527,568
Warrants liability, at fair value	49,403	43,309
Current liabilities	**2,594,481**	**2,044,384**
Non-Current		
OCS royalty liability	42,199	47,391
Borrowings	93,978	98,848
Non-current liabilities	**136,177**	**146,239**
Total liabilities	**2,730,658**	**2,190,623**
Equity		
Share capital	8,028	4,958
Share premium	23,308,422	5,629,272
Other components of equity	478,192	332,107
Accumulated deficit	(5,110,014)	(5,289,848)
Total equity	**18,684,628**	**676,489**
Total liabilities and equity	**21,415,286**	**2,867,112**

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

STATEMENTS OF COMPREHENSIVE INCOME

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2017	2016	2016
	(Unaudited)		(Audited)
Revenue	988,995	1,309,138	2,161,366
Cost of sales	131,111	646,464	1,007,097
Gross profit	857,884	662,674	1,154,269
Research and development expenses	151,047	119,058	221,873
General and administrative expenses	162,798	128,668	317,214
Marketing expenses	172,655	151,370	276,681
Other income	8,500	-	-
Operating profit	**379,884**	**263,578**	**338,501**
Financing costs	200,050	40,504	87,680
Profit before tax	179,834	223,074	250,821
Tax benefit	-	-	550,000
Net comprehensive income for the year	**179,834**	**223,074**	**800,821**
Basic earnings per ordinary share	**0.01**	**0.01**	**0.04**
Diluted earnings per ordinary share	**0.01**	**0.01**	**0.03**
Weighted average number of ordinary shares for basic earnings per share	18,237,178	18,078,500	18,078,500

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

STATEMENTS OF CHANGES IN EQUITY

	Number of shares		Amounts in US dollars					
			Share Capital					
	Ordinary shares	Preferred shares	Ordinary shares	Preferred shares	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2016 (Audited)	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**290,874**	**(6,090,669)**	**(165,565)**
Employee share-based compensation	-	-	-	-	-	41,233		41,233
Net comprehensive income for the year	-	-	-	-	-	-	800,821	800,821
Balance at 31 December 2016 (Audited)	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**332,107**	**(5,289,848)**	**676,489**
Conversion of preferred shares into ordinary shares	3,725,400	(3,725,400)	847	(847)	-	-	-	-
Employee share-based compensation	-	-	-	-	-	24,971	-	24,971
Net proceeds from issuing ordinary shares	10,714,286	-	3,070	-	17,800,264	-	-	17,803,334
Share based compensation related to issuance of ordinary shares	-	-	-	-	(121,114)	121,114	-	-
Net comprehensive income for the period	-	-	-	-	-	-	179,834	179,834
Balance at 30 June 2017 (Unaudited)	**32,518,186**	**-**	**8,028**	**-**	**23,308,422**	**478,192**	**(5,110,014)**	**18,684,628**
Balance at 1 January 2016 (Audited)	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**290,874**	**(6,090,669)**	**(165,565)**
Employee share-based compensation	-	-	-	-	-	35,079	-	35,079
Net comprehensive income for the period	-	-	-	-	-	-	223,074	223,074
Balance at 30 June 2016 (Unaudited)	**18,078,500**	**3,725,400**	**4,111**	**847**	**5,629,272**	**325,953**	**(5,867,595)**	**92,588**

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

STATEMENTS OF CASH FLOWS

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2017	2016	2016
	(Unaudited)		(Audited)
Operating activities			
Net comprehensive income	179,834	223,074	800,821
Non-cash adjustments			
Depreciation of property and equipment	7,051	8,263	16,796
Capital gain from sale of vehicle	(8,500)	-	-
Share-based compensation	24,971	35,079	41,233
Amortisation of intangible assets	54,357	6,663	34,438
Amortisation of liabilities	67,989	-	11,706
Foreign exchange losses on cash balances	(73,181)	(12,777)	2,397
Deferred tax	-	-	(550,000)
Net changes in working capital			
Increase in trade receivables	(122,505)	(172,851)	(106,033)
Decrease in inventories	-	64,147	64,147
Decrease (increase) in other current assets	(9,394)	(63,390)	86,663
Increase (decrease) in trade payables	7,150	(245,628)	(284,193)
Increase in other liabilities	61,380	73,176	196,585
Net cash provided (utilised) by operating activities	**189,152**	**(84,244)**	**314,560**
Investing activities			
Increase of other short-term financial assets	(5,841)	(58,502)	(58,518)
Purchase of property and equipment	(5,550)	(4,267)	(20,354)
Sale of vehicle	28,830	-	-
Amounts carried to intangible assets	(584,765)	(519,543)	(1,033,389)
Participating grants in intangible assets	-	156,384	313,175
Net cash used in investing activities	**(567,326)**	**(425,928)**	**(799,086)**
Financing activities			
Repayment of OCS liability	-	-	(35,670)
Proceeds from short term borrowings	156,061	107,930	26,379
Proceeds from (repayment of) long term borrowings	(1,747)	125,321	101,868
Receipt (repayment) of shareholder loans	(87,246)	104,018	526,634
Proceeds allocated to warrants liability	-	-	43,309
Net proceeds from issuing ordinary shares	18,139,782	-	-
Net cash provided by financing activities	**18,206,850**	**337,269**	**662,520**
Net change in cash and cash equivalents	17,828,676	(172,903)	177,994
Cash and cash equivalents, beginning of year	335,723	160,126	160,126
Exchange differences on cash and cash equivalents	73,181	12,777	(2,397)
Cash and cash equivalents, end of period	18,237,580	-	335,723
Supplementary information:			
Interest paid during the year	10,600	5,185	13,543
Issuance costs not paid in cash	336,448	-	-

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - GENERAL

ETHERNITY NETWORKS LTD. (hereinafter: the "Company") was incorporated in Israel on the 15th of December 2003.

The Company develops and delivers high-end network data processing technology for carrier Ethernet switching, including broadband access, mobile backhaul, carrier Ethernet demarcation and data centres. The Company's customers are situated throughout the world.

In June 2017, the Company completed an Initial Public Offering ("IPO") together with being admitted to trading on the AIM Stock Exchange and issued 10,714,286 ordinary shares at a price of GBP 1.40 per share, for a total consideration of approximately $19,444,000 (GBP 15,000,000) before underwriting and issuance expenses. Total net proceeds from the issuance amounted to approximately $17,800,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been consistently applied in the preparation and presentation of the interim and annual financial statements for all of the periods presented.

Basis of preparation of the interim financial statements:

The interim condensed financial statements for the six months ended 30 June 2017 have been prepared in accordance with IAS 34, Interim Financial Reporting, as adopted by the European Union. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements in accordance with IFRS, and should be read in conjunction with the Company's annual financial statements as at 31 December 2016. The accounting policies applied in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2016.

The interim financial statements for the half-year ended 30 June 2017 (including comparative amounts) were approved and authorised for issue by the board of directors on 14 September 2017.

NOTE 3 - EQUITY

On 23 June 2017,

- all of the Company's preferred shares were converted into ordinary shares on a one-to-one basis;
- the pre-emption rights in favor of existing shareholders, as determined by the articles of association, were cancelled and a new articles of association was adopted;
- each of the issued and un-issued shares of par value NIS 0.01 of the share capital of the Company were sub-divided into 10 ordinary shares of NIS 0.001;
- the authorised share capital of the Company was increased to NIS 50,000.00 divided into 50,000,000 ordinary shares of NIS 0.001 each.

On 29 June 2017 the Company completed an IPO together with being admitted to trading on the AIM Stock Exchange in London and issued 10,714,286 ordinary shares at a price of GBP 1.40 per share, for a total consideration of approximately $ 19,445,000 (GBP 15,000,000) before advisory and other share issue costs. Total net proceeds from the share issue amounted to $ 17,803,334.

NOTE 4 - SHARE BASED COMPENSATION

A. In connection with the IPO, 162,591 warrants, exercisable into a same number of ordinary shares at the IPO price of GBP 1.40, was issued to the Nominated Adviser and Broker as a share-based compensation. The warrants have a five-year term but may not be exercised within the first 12 months. The fair value of these warrants of $121,114 was reduced from share premium and added to other components of equity.

B. In March 2017, the Company appointed Mark Reichenberg as CFO of the Company and granted him 109,000 ESOP options, vesting over four years, exercisable at $0.20 per option and with an expiration date in March 2027.

NOTE 5 - FINANCING COSTS

	US dollars		
	Six months ended 30 June 2017	**Six months ended 30 June 2016**	**Year ended 31 December 2016**
	Unaudited	**Unaudited**	**Audited**
Bank fees and interest	20,666	33,102	56,159
Interest and amortization of loan discount	67,989	-	16,428
Exchange rate differences (*)	111,395	7,402	15,093
Total financing costs	200,050	40,504	87,680

(*) The exchange rate differences in the six month period ended 30 June 2017, are primarily attributable to the 9.1% depreciation in the US Dollar against

By order of the Board

Mark Reichenberg
Company Secretary
15 September 2017