10 September 2020

ETHERNITY NETWORKS LTD

("Ethernity Networks" or the "Company" or the "Group")

Interim results for the six months ended 30 June 2020

Ethernity Networks Ltd (AIM: ENET.L), announces its interim results for the six months ended 30 June 2020.

Ethernity Networks Ltd. (AIM: ENET) provides innovative, comprehensive networking and security solutions on programmable hardware for accelerating telco/cloud networks performance. Ethernity's FPGA logic offers complete Carrier Grade Switch Router data plane processing and control software with a rich set of networking features, robust security, and a wide range of virtual function accelerations to optimize telecommunications networks. Ethernity's complete solutions quickly adapt to customers' changing needs, improving time-to-market and facilitating the deployment of 5G and edge computing.

Financial summary:

- Revenues decrease to $359,375 over the comparable period (H1 2019: $971,709)
- Gross margin decreased to $316,982 over the comparable period (H1 2019: $843,002)
- Gross margin percentage consistent at 88.20% (H1 2019: 86.75%)
- Research and Development, General and Administrative, and Marketing expenses reduced by 24% over previous period
- EBITDA loss (adjusted for R&D capitalisation normalisation) reduced by 12% to $2,497,517 (H1 2019: comparable adjusted loss: $2,823,652)
- Comprehensive net loss (adjusted for R&D capitalisation normalisation) decreased by 13% over the comparable period
- Cash and cash deposits balances at 30 June 2020 of $0.55m (31 December 2019: $2.66m) (30 June 2019: $5.9m).
    - Net cash usage rate during H1 2020 ($2.69m) reduced by 27% compared to H2 2019 ($3.24m)
    - Additional cut in expenses implemented for H2 2020 have further reduced our cash consumption. Subject to contract wins, R&D expenditure may be increased in the latter part of 2020.
    - Cash resources bolstered following successful placing in July 2020 raising £880,000 (approximately $1.1m) before expenses

Operational highlights:

Following on from the FiberHome 5G User Plane Functionality (UPF) collaboration started at the end of 2019, H1 2020 continued the momentum around the 5G UPF offering to other potential customers.

- In February 2020 we finalised an agreement with TietoEVRY to create a joint offering of an open source concept based on VPP for 5G UPF to accelerate 5G packet processing at the network edge. The intention is to deliver to customers an end-to-end open UPF platform that includes the UPF control utilising the VPP open source and the UPF data plane running and offloaded by the ACE-NIC100. Following completion of the enablement with the VPP we have delivered the offering for lab testing to two operators and to two strategic partners. Furthermore, major go-to-market activities are managed jointly with TietoEVRY in China, with a global go to market collaboration planned for 2021.
- In March 2020 we achieved a further design win with another Chinese OEM that is working on integrating their UPF control software running over DPDK to operate on top of our ACE-NIC for UPF data plane offload with delivery of the complete offering for service provider testing planned during Q4 2020.

- In April 2020 we shipped a number of ACE-NIC100 cards to a large Chinese operator following an order received for product introduction and integration, and further progress will be managed through our OEM customers.
- We have commenced a process with two strategic world technology industry leaders to support the introduction and dissemination in the open compute(r) industry of our 5G UPF offload.
- In early June 2020 we received a further order directly from another Asian service provider planning to deliver their own UPF control and offload, with Ethernity's ACE-NIC, the UPF data plane. Assuming the deployment plan is successful, commencing in the second half of 2021, this may lead to 500-1000 ACE-NIC card sales in the two years following starting of deployment.

The Company now has a direct relationship with three major telecom service providers in China - China Mobile, China Telecom and China Unicom - all either planning to use an FPGA SmartNIC offering for 5G UPF, or already under development in their laboratories for integrating their own open UPF software to be offloaded by the ACE-NIC. Further business and revenue from the Chinese operators will flow through our OEM customers.

Further to the above, the Company has continued to achieve recognition with the following other notable events:

- The Company was named as a Vendor to Watch in a February 2020 Gartner research report titled *Market Trends: Function Accelerator Cards Disrupting Traditional Ethernet Adapter Market.*
- On 30 April 2020, the Company announced a design contract with a North American Tier-1 OEM for Ethernity flow processor technology, including ENET Switch and Traffic Manager firmware, to support 200Gbps performance on customer's xPON Optical Line Termination device.
- On 22 June 2020, the Company announced that it signed a contract with Hong Kong Techtronics Electronic Technology Limited to manage distribution of its 100Gbps ACE-NIC100 FPGA SmartNIC throughout the Chinese market.

Post-period events

- On 14 July 2020 the Company completed a successful placing of new shares and warrants, including participation by Directors, to raise funds of approximately $1,110,000 (before expenses). The net proceeds were used to strengthen the balance sheet, to allow the Company to support the growing number of engagements for its 5G offering towards successful field deployments, and for general working capital purposes. This placing included the issue of c. 3.7 million warrants at 20p and c. 3.7 million warrants at 30p to participating shareholders for a 12 month period.

- On 5 August 2020, the Company announced that it had signed a new contract with an existing OEM customer, based in St Petersburg, to upgrade an existing hardware platform with new FPGA-firmware to serve the enterprise router business.

- Share based compensation and Directors options
  Due to the Directors' cuts in remuneration, as previously announced, along with the substantial additional time requirements of the non-Israel Non-Executive Directors, the Company intends to issue certain shares and options, details of which will be announced in due course.

The Company continues to focus in the short term on entering into licensing deals as was completed with the St. Petersburg based customer. The upfront cash benefits generated by the licensing deals contributes to the Company`s financial resources to meet the anticipated 5G deployment that is anticipated to commence in 2021.

We are experiencing a continued positive reception to the Company's product offerings with Tier1 OEM's and anticipate that more design wins will be achieved in the next 6 months.

Over the last two months the Company has had ongoing positive progress with our 5G ACE-NIC100 OEM customers for UPF offload toward completion of a solution that can be delivered to the market by our OEM customers, and further completed a 400Gbps fabric switch design that can cascade two ACE-NIC100s to support 200G UPF offload. In addition the Company is engaged in discussions on the existing Company's Router-on-a-NIC for vRouter Offload on 5G Distribution Units as part of the Cloud Radio Access Network which may lead to additional market share for Ethernity in the upcoming 5G network. 5G mobile networks are expected to start deployment during 2021 and are based on virtualised environments. With the increased throughput of the 5G mobile network, acceleration of the UPF data plane at the edge of the network has become a core requirement compared to existing 4G mobile networks.

The Company anticipates continuing to conclude licensing agreements before the end of the year within the markets in which it operates, with both existing and new customers.

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

"The first half results were not in-line with our initial expectations at the beginning of the year, as some licensing deals were delayed beyond our expectations, as well as the impact of COVID-19, albeit first half revenue expectations were much lower than that estimated for the second half of 2020. However, we have experienced that our customers have now returned to certain levels of normal business operations and are finalising their thought process relating to development of new products and architecture that is expected to lead to demand of our ENET Flow Processor. The deals forecast for this year are intact and we hope that these will be concluded during H2 2020 or Q1 2021 at the latest. Our core focus remains on the Company moving from an IP/technology provider to a solutions provider for virtual networking and security appliances with greater focus on 5G, with licensing contracts targeting the broader market to cover other opportunities that require the use of our technology. This should leverage our OEM's investment in go-to-market and product solution development while utilising our technology to develop into stable recurrent revenue from royalties. The goals of the Company's development activities are to build stable recurrent revenues from technology licensing and the supply of our ACE-NIC FPGA SmartNIC product family.

We remain confident that Ethernity`s technology is well positioned to become one of the key technology solutions providers in its marketplace."

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MARKET ABUSE REGULATION

The information communicated in this Announcement is inside information for the purposes of Article 7 of Market Abuse Regulation 596/2014 ("MAR"). For the purposes of MAR and Article 2 of Commission Implementing Regulation (EU) 2016/1055, this announcement is being made on behalf of the Company by Mark Reichenberg, Chief Financial Officer

OPERATIONAL AND FINANCIAL REVIEW

The challenging market trends continued through the first six months of 2020, exacerbated by the worldwide COVID-19 pandemic, including the discussion and evaluation process with potential customers not being entirely within our control. However, the Company is experiencing positive results from focusing on becoming a solutions provider and from the engagement with customers previously during 2019 with resultant design wins during the first half of 2020 and continuing in 2020 ongoing customer engagement activity continues to increase substantially. There has been significant progress related to the ACE-NIC, and licensing deals, some of which we are hoping to be completed over the remaining months of 2020.

Whilst we had previously commented that the adoption of the new networking virtualisation market in which we operate has been delayed from when originally anticipated, we are now beginning to experience the market entering engagement and deployment stages. We remain confident in the long term prospects of the Company and this is supported by the number of ongoing project collaborations around the Company's ACE-NIC and royalty revenues streams.

During the period under review, the Company delivered revenues of $359,375 (H1 2019: $971,709) and a gross profit of $316,982 (H1 2019 $843,002). Revenues are lower than the comparable period and not unexpected as announced in previous market updates prior to the release of the 2019 annual results,, regardless of which, the first half revenue expectations were initially much lower than that estimated for the second half of 2020, however we still remain confident that the existing and new customer engagements and relationships in the forthcoming 12 months will provide more than $2m in revenues from licensing and royalties.

The revenues reported are directly related to the timing of design wins, licensing deals and contracts anticipated for the year, with the management growth expectations being aligned for the second half of the 2020 year. As previously announced, revenues in the second half of 2020 will be bolstered from the following:

- On 30 April 2020, the Company announced a design contract with North American Tier-1 OEM for Ethernity flow processor technology, including ENET Switch and Traffic Manager firmware, to support 200Gbps performance on customer's xPON optical light termination device with a total revenue of $740k for the following 12 months period
- On 5 August 2020, the Company announced that it signed a new contract with an existing OEM customer, based in St Petersburg, to upgrade an existing hardware platform with new FPGA-firmware, with a total of $190k for a 12 months period and, pending successful execution, anticipated FPGA revenues of c. $1m during 2021.

The gross profit percentage of 88.2% (H1 2019: 86.8%) remains consistent with the year ended 31 December 2019 and the comparable period in 2019 due to the different product mix within the revenue, where design wins and royalty revenue, which are near 100% gross margin, contributed 85.2% of revenue in H1 2020 compared to 76.9% in H1 2019.

Net Comprehensive Loss	US Dollar		
	Six months ended		Year ended 31 December
	30 June 2020	30 June 2019	2019
Revenues	**359,375**	**971,709**	**1,343,844**
Gross Margin	**316,982**	**843,002**	**1,150,832**
Gross Margin %	*88.20%*	*86.75%*	*85.64%*
Operating (Loss) Profit	**-3,065,377**	**-981,774**	**-4,542,773**
Net Financing income (expenses)	155,780	-8,530	-5,259
(Loss) Profit before tax	-2,909,597	-990,304	-4,548,032
Tax benefit (reversal of previous deferred tax benefit)	-	-	-613,228
Net comprehensive (loss) income for the period *(note 1)*	**-2,909,597**	**-990,304**	**-5,161,260**
Basic earnings per ordinary share	**-0.09**	**-0.03**	**-0.16**
Diluted earnings per ordinary share	**-0.09**	**-0.03**	**-0.16**
Weighted average number of ordinary shares for basic earnings per share	**32,673,455**	**32,556,686**	**32,556,686**

Note 1
The comprehensive loss at 30 June 2019 would have been $3,331,817 had the R&D costs of $2,341,513 not been capitalised to the Intangible Asset. On a comparable basis, the operating loss has decreased by $422,220 - 13%

EBITDA loss in the first six months of the year was $2,497,517 (H1 2018 loss: $482,139), which is primarily as a result of the change in treatment of recognising R&D costs as an expense from H2 2019.

When comparing the current period EBITDA to the comparable period, taking account of the change in treatment, the EBITDA loss of $2,497,517 versus the adjusted loss in the same period 2019 of $2,823,652 shows an improvement of 12%, mainly attributable to the announced COVID-19 and cash conservation measures undertaken by the Company in the first half of the current year.

EBITDA	US Dollar		
	Six months ended		Year ended 31 December
	30 June 2020	30 June 2019	2019
Revenues	**359,375**	**971,709**	**1,343,844**
Gross Margin as presented	316,982	843,002	1,150,832
Gross Margin %	*88.20%*	*86.75%*	*85.64%*
Operating (Loss) Profit as presented	**-3,065,377**	**-981,774**	**-4,542,773**
Adjusted for:			
Add back Amortisation of Intangible Assets	*471,917*	*367,378*	*743,752*
Add back Share based compensation charges	*-15,556*	*16,769*	*69,654*
Add back vacation accrual charges	*30,312*	*37,275*	*14,454*
Add back depreciation charges on fixed assets	*78,198*	*72,638*	*151,977*
IFRS16 operating leases depreciation net of rent and lease fees	*2,989*	*5,575*	*10,350*
EBITDA	**-2,497,517**	**-482,139**	**-3,581,494**
Adjusted for R&D expenses capitalised in H1 19		-2,341,513	-2,341,513
Comparable EBITDA	**-2,497,517**	**-2,823,652**	**-5,923,007**

Operating expenses (before amortisation and depreciation), declined by 24% in the current period against the same period in 2019 from $3,736,726 to $2,832,244 which underpin the conservation measures taken during the period under review.

OPERATING COSTS BEFORE AMORTISATION AND DEPRECIATION	30 June 2020	30 June 2019	Increase (Decrease)	Increase (Decrease)
	US Dollar	US Dollar	US Dollar	US Dollar
Research and Development Costs	1,664,298	2,254,016	-589,718	-26.2%
General and Administrative expenses	607,392	645,502	-38,110	-5.9%
Marketing expenses	560,554	837,208	-276,654	-33.0%
Total	**2,832,244**	**3,736,726**	**-904,482**	**-24.2%**

Net cash, cash deposits and cash equivalents are $0.55m as at 30 June 2020 (31 December 2019 $2.66m) (H1 2019: $5.94m). Cash utilisation remains a key focus for the board which has continued to take measures to ensure the cash reserves remain sufficient to allow the Company to meet the 2021 product deployment plans as has been updated previously.

The cash reserves were further bolstered in July 2020 when the Company successfully raised gross funds before expenses of $1.11m. This share placing event included the issue of Warrants as described in note 9.A. of the attached financial statements

Segment Reporting

The geographic mix is represented by the makeup of the products supplied, where in the first half of the current financial year the revenues were weighted towards foreign design wins while royalty revenues were earned in Israel. The trend is expected to continue during the second half of the year as design wins and product supply focussing on the Tier1 OEMs outside of Israel continues to grow.

SEGMENT REPORT sector analysis						
Region	**Six months ended 30 June 2020**	**2020 %**	**Six months ended 30 June 2019**	**2019 %**	**Year ended 31 December 2019**	**2019 %**
United States	227,520	63.3%	588,680	60.6%	845,525	62.9%
Israel	121,855	33.9%	277,188	28.5%	437,479	32.6%
Asia	10,000	2.8%	105,840	10.9%	60,840	4.5%
Europe	0	0.0%	0	0.0%	0	0.0%
Total	**359,375**	**100.0%**	**971,708**	**100.0%**	**1,343,844**	**100.0%**

Outlook

The Board remains confident that, on the basis of continued increased customer engagements, succesful licensing deals and timely completion of major contracts in the current pipeline, Ethernity will meet its long-term objectives and is well positioned to become one of the key solutions providers in its marketplace. The Company continues to experience an increase in the outreach by OEMs and operators interested in Ethernity's solutions where these solutions are proving increasingly aligned with operators` strategy with their customers in their marketplaces. 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.

COVID-19 impact and funding

The Company has previously stated that in light of the continued uncertainty on the potential impact and duration of the COVID-19 pandemic, the Board had taken certain steps to both safeguard the well-being of staff and to position the Company for the future.

The Board remains conscious of the uncertainties over the timing of the securing of customer orders and receipt of revenues from product sales and licensing transactions both in relation to general market delays as well as delays from the impact of COVID-19 on customers and engagements. This remains a challenge for the executive management in predicting when substantive revenues and related profits will be earned, including for the current financial year.

The Company provided update announcements in April, May and June 2020, regarding the impact on the Company`s operations and markets of the COVID-19 pandemic. This included requirements for and management of cash resources pending further financing.

The auditors made reference to the existence of a material uncertainty in relation to going concern within the audit report for the year ended 31 December 2019, which opinion, due to the continued COVID-19 situation worldwide, the Company maintains in these unaudited financial statements for the 6 months ended 30 June 2020, to which we draw your attention, and this is further described in Note 3 to these statements. Further to that reported in the Annual Report released on 26 June 2020 and in light of the change in status of the engagement with the Military/Aerospace T1 vendor the Company stated that it would need to secure additional short term funding in the latter half of H2 2020 either via short term finance arrangements or an additional issue of equity. Additional funds were secured via a further issue of equity completed on 14 July 2020, whereby the company raised $1,110,000 before expenses, and the Company continues to closely monitor its funding levels and requirements.

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.

By order of the Board

Mark Reichenberg
Company Secretary
10 September 2020

Interim Unaudited Financial Statements
as at 30 June 2020

STATEMENTS OF FINANCIAL POSITION

		US dollars		
		30 June		31 December
		2020	2019	2019
	Note	Unaudited		Audited
ASSETS				
Current				
Cash and cash equivalents		547,104	3,418,538	1,116,922
Other short-term financial assets		-	2,520,023	2,553,823
Trade receivables		284,688	551,812	427,162
Inventories		169,033	114,390	166,905
Other current assets		176,924	234,392	362,791
Current assets		**1,177,749**	**6,839,155**	**4,627,603**
Non-Current				
Property and equipment		459,767	589,895	525,542
Deferred tax assets		186,772	800,000	186,772
Intangible asset	5	7,866,249	8,843,950	8,436,010
Right-of-use asset		370,150	384,761	448,081
Other long term assets		7,507	-	5,167
Non-current assets		**8,890,445**	**10,618,606**	**9,601,572**
Total assets		**10,068,194**	**17,457,761**	**14,229,175**
LIABILITIES AND EQUITY				
Current				
Short Term Borrowings		50,923	-	1,012,731
Trade payables		148,471	346,708	325,240
Other current liabilities		1,192,324	1,250,310	1,126,007
Current liabilities		**1,391,718**	**1,597,018**	**2,463,978**
Non-Current				
Lease liability		227,259	284,258	306,783
Non-current liabilities		**227,259**	**284,258**	**306,783**
Total liabilities		**1,618,977**	**1,881,276**	**2,770,761**
Equity				
Share capital		8,079	8,039	8,039
Share premium		23,410,070	23,396,310	23,396,310
Other components of equity		779,491	840,006	892,891
Accumulated deficit		(15,748,423)	(8,667,870)	(12,838,826)
Total equity		**8,449,217**	**15,576,485**	**11,458,414**
Total liabilities and equity		**10,068,194**	**17,457,761**	**14,229,175**

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

STATEMENTS OF COMPREHENSIVE LOSS

		US dollars		
		Six months ended 30 June		For the year ended 31 December
		2020	2019	2019
	Note	Unaudited		Audited
Revenue	8	359,375	971,709	1,343,844
Cost of sales		42,393	128,707	193,012
Gross profit		**316,982**	**843,002**	**1,150,832**
Research and development expenses		2,136,215	279,881	2,855,896
General and administrative expenses		685,590	718,140	1,426,376
Marketing expenses		560,554	837,208	1,434,670
Other income (loss)		-	(10,453)	(23,337)
Operating loss		**(3,065,377)**	**(981,774)**	**(4,542,773)**
Financing costs	6	(22,136)	(59,235)	(93,584)
Financing income	7	177,916	50,705	88,325
Loss before tax		**(2,909,597)**	**(990,304)**	**(4,548,032)**
Tax expense		-	-	(613,228)
Net comprehensive loss for the period		**(2,909,597)**	**(990,304)**	**(5,161,260)**
Basic and diluted loss per ordinary share		**(0.09)**	**(0.03)**	**(0.16)**
Weighted average number of ordinary shares for basic and diluted loss per share		32,673,455	32,556,686	32,556,686

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

STATEMENTS OF CHANGES IN EQUITY

	Amounts in US dollars (except number of shares)					
	Capital of shares	Share Capital	Share premium	Other components of equity	Accumulated deficit	Total equity
Balance at 1 January 2020 (Audited)	**32,556,686**	**8,039**	**23,396,310**	**892,891**	**(12,838,826)**	**11,458,414**
Employee share-based compensation	-	-	-	16,593	-	16,593
Cancellation of employee share-based compensation	-	-	-	(129,993)	-	(129,993)
Exercise of employee options	138,000	40	13,760	-	-	13,800
Net comprehensive loss for the period	-	-	-	-	(2,909,597)	(2,909,597)
Balance at 30 June 2020 (Unaudited)	**32,694,686**	**8,079**	**23,410,070**	**779,491**	**(15,748,423)**	**8,449,217**
Balance at 1 January 2019 (Audited)	**32,556,686**	**8,039**	**23,396,310**	**760,849**	**(7,677,566)**	**16,487,632**
Employee share-based compensation	-	-	-	79,157	-	79,157
Net comprehensive loss for the period	-	-	-	-	(990,304)	(990,304)
Balance at 30 June 2019 (Unaudited)	**32,556,686**	**8,039**	**23,396,310**	**840,006**	**(8,667,870)**	**15,576,485**
Balance at 1 January 2019 (Audited)	**32,556,686**	**8,039**	**23,396,310**	**760,849**	**(7,677,566)**	**16,487,632**
Employee share-based compensation	-	-	-	132,042	-	132,042
Net comprehensive loss for the year	-	-	-	-	(5,161,260)	(5,161,260)
Balance at 31 December 2019 (Audited)	**32,556,686**	**8,039**	**23,396,310**	**892,891**	**(12,838,826)**	**11,458,414**

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
	2020	2019	2019
	Unaudited		Audited
Operating activities			
Net comprehensive loss for the period	(2,909,597)	(990,304)	(5,161,260)
Non-cash adjustments			
Depreciation of property and equipment	78,198	72,638	151,997
Capital loss	612	-	-
Depreciation of operating lease right of use asset	77,931	56,307	122,729
Share-based compensation	(15,556)	16,769	69,654
Amortisation of intangible assets	471,917	367,378	734,752
Amortisation of liabilities	-	2,048	3,499
Deferred tax expenses	-	-	613,228
Foreign exchange (gains) losses on cash balances	(79,804)	5,251	(7,878)
Net changes in working capital			
Decrease in trade receivables	142,474	90,273	214,923
Decrease (increase) in inventories	(2,128)	1,622	(50,893)
Decrease in other current assets	185,867	174,858	46,459
Increase in other long-term assets	(2,340)	-	(5,167)
Increase (decrease) in trade payables	(176,769)	58,400	36,932
Increase (decrease) in other liabilities	61,735	63,348	(99,612)
Net cash used in operating activities	**(2,167,460)**	**(81,412)**	**(3,330,637)**
Investing activities			
Proceeds from other short-term financial assets	2,553,823	11,563,686	11,529,886
Deposits to other short-term financial assets	-	(6,000,000)	(6,000,000)
Purchase of property and equipment	(13,035)	(56,476)	(71,482)
Amounts carried to intangible assets	-	(2,279,125)	(2,238,559)
Net cash provided by (used in) investing activities	**2,540,788**	**3,228,085**	**3,219,845**
Financing activities			
Proceeds from exercise of options	13,800	-	-
Repayment of IIA liability	-	(12,470)	(20,834)
Proceeds from short term borrowings	-	-	1,012,731
Repayment of short-term borrowings	(961,808)	-	-
Repayment of long-term borrowings	-	(133,497)	(133,497)
Repayment of lease liability	(74,942)	(50,732)	(112,379)
Net cash provided by (used in) financing activities	**(1,022,950)**	**(196,699)**	**746,021**
Net change in cash and cash equivalents	(649,622)	2,949,974	635,229
Cash and cash equivalents, beginning of year	1,116,922	473,815	473,815
Exchange differences on cash and cash equivalents	79,804	(5,251)	7,878
Cash and cash equivalents, end of period	547,104	3,418,538	1,116,922
Supplementary information:			
Interest paid during the period	15,912	9,874	2,727
Interest received during the period	13,859	50,705	88,325
Supplementary information on non-cash activities:			
Share-based compensation capitalised to intangible assets	(97,844)	62,388	62,388
Recognition of right-of-use asset and lease liability	-	441,068	570,810

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 - NATURE OF OPERATIONS

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

The Company develops and delivers high-end network 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.

NOTE 2 - SUMMARY OF ACCOUNTING POLICIES

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

The interim condensed financial statements for the six months ended 30 June 2020 have been prepared in accordance with IAS 34, Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements in accordance with IFRS and should be read in conjunction with the Company's annual financial statements as at 31 December 2019. 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 2019.

The interim condensed financial statements for the half-year ended 30 June 2020 (including comparative amounts) were approved and authorized for issue by the board of directors on 24 August 2020.

NOTE 3 - GOING CONCERN

The financial statements have been prepared assuming that the Company will continue as a going concern. Under this assumption, an entity is ordinarily viewed as continuing in business for the foreseeable future unless management intends or has no realistic alternative other than to liquidate the entity or to stop trading for at least, but not limited to, 12 months from the reporting date. The assessment has been made of the Company's prospects, considering all available information about the future, which have been included in the financial budget, from managing working capital and among other factors such as debt repayment schedules. Consideration has been given inter alia, to the current stage of the Company's life cycle, its losses and cash outflows, including with respect to the development of the Company's products, the expected timing and amounts of future revenues and the ability of the Directors to raise further funds either through debt, equity, or asset sales, or deferral of liabilities, their current assessment of financial and operational risk and their best estimate of the potential impact of COVID-19 on operations and the material uncertainties arising therefrom. As of 30 June 2020, the Company incurred an accumulated deficit of $15.7 million and reported net comprehensive loss of $2.9 million and negative cash flows from operating activities of $2.2 million during the period ended June 30, 2019. The Company successfully completed a further raise of capital on 14 July 2020 with gross proceeds before expenses of £880,000 (approximately $1,110,000) – see note 9.

Current internal forecasts based on information available at the date of these unaudited financial statements and using a variety of scenarios indicate that the Company has sufficient resources in order to meet its current plans and liabilities as they fall due in the next 12 months. In the light of enquiries made, as well as bearing in mind the ability of the Company to raise funds previously, the Directors have a reasonable expectation that the Company will have access to adequate resources to continue in operational existence for the foreseeable future and therefore have adopted the going concern basis of preparation in the financial statements.

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

NOTE 4 - SIGNIFICANT EVENTS

COVID-19

On March 11, 2020, the World Health Organization recognized the novel strain of coronavirus, COVID-19, as a pandemic. This coronavirus outbreak has severely restricted the level of economic activity around the world. In response to this coronavirus outbreak, the governments of many countries, states, cities, and other geographic regions have taken preventive or protective actions, such as imposing restrictions on travel and business operations and advising or requiring individuals to limit or forego their time outside of their homes.

In light of the continued duration of the COVID-19 pandemic, and the uncertainty on the potential ongoing and future impact, the Board took certain steps to both safeguard the well-being of staff and to position the Company for the future. Where possible a work-from-home policy was implemented and all non-discretionary expenditure was curtailed. The Company also took prudent steps to mitigate any impact through certain short-term cash conservation measures, including a reduction by all directors of up to 50% of their remuneration, with 20% of the reduction deferred.

In addition, the Company recognises that revenues are likely to be delayed due to COVID-19 uncertainty, including where engaged customers' functions are affected through remote working arrangements. The Board continues to closely monitor the situation and will take further action, as appropriate, to manage its working capital position and strengthen the balance sheet to support the execution of the Company's plans.

NOTE 5 - INTANGIBLE ASSET

Details of the Company's intangible asset is as follows:

	US dollars Total
Gross carrying amount	
Balance 1 January 2020	9,648,501
Disposals (*) (**)	(97,844)
Balance 30 June 2020	9,550,657
Amortisation	
Balance 1 January 2020	1,212,491
Amortisation	471,917
Balance 30 June 2020	1,684,408
Carrying amount 30 June 2020	**7,866,249**

(*) The Disposals include $97,844 reversal of share based compensation.

	US dollars
	Total
Gross carrying amount	
Balance 1 January 2019	7,347,554
Additions (*) (**)	2,300,947
Balance 31 December 2019	9,648,501
Amortisation	
Balance 1 January 2019	477,739
Amortisation	734,752
Balance 31 December 2019	1,212,491
Carrying amount 31 December 2019	**8,436,010**

(*) The additions include $62,388 of share based compensation.

(**) Applicable development costs were capitalized and were recognized as intangible assets. However, as the Company did not meet all the measurement criteria of IAS 38 specifically with regard to being confident of sufficient financial resources for the 12 months following the date of this report, the Company ceased to capitalize development costs commencing the second half of 2019.

The Company commissioned an impairment test of the capitalized intangible assets as of 31 December 2019, by a top-tier independent international firm with expertise in valuation procedures. According to such independent report, the value in use of these intangible assets is approximately USD 27 million - more than three times the book value and accordingly there has been no need to record an impairment to such capitalized assets.

The valuation method determined, to best reflect the fair value of the intangible assets, was the discounted future cash flows expected to be generated from such assets between 2020 through 2029.

The primary assumptions used in determining the fair value of these intangible assets are as follows:

- Corporate tax rate for the Company remains at 23%.
- The pre-tax discount rate used to value future cash flows is 30.6% (post-tax 25%).

	US dollars
	Total
Gross carrying amount	
Balance 1 January 2019	7,347,554
Additions (*) (**)	2,341,513
Balance 30 June 2019	9,689,067
Amortisation	
Balance 1 January 2019	477,739
Amortisation	367,378
Balance 30 June 2019	845,117
Carrying amount 30 June 2019	**8,843,950**

(*) The additions include $62,388 of share based compensation.

NOTE 6 - FINANCING COSTS

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2020	2019	2019
	Unaudited		Audited
Bank fees and interest	13,563	6,726	16,144
Lease liability financial expenses	8,573	8,820	17,584
Exchange rate differences	-	43,689	59,856
Total financing costs	22,136	59,235	93,584

NOTE 7 - FINANCING INCOME

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2020	2019	2019
	Unaudited		Audited
Interest received	13,859	50,705	88,325
Exchange rate differences	164,057	-	-
Total financing income	177,916	50,705	88,325

NOTE 8 - SEGMENT REPORTING

The Company has implemented the principles of IFRS 8, in respect of reporting segmented activities. In terms of IFRS 8, the management has determined that the Company has a single area of business, being the development and delivery of high-end network processing technology.
The Company's revenues from customers are recognised as follows:

	US dollars		
	Six months ended 30 June		Year ended 31 December
	2020	2019	2019
	Unaudited		Audited
Revenues recognised over time	140,000	565,000	471,665
Revenues recognised at a point of time	219,375	406,709	872,179
	359,375	971,709	1,343,844

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

US dollars		
Six months ended 30 June		Year ended 31 December
2020	2019	2019
Unaudited		Audited

United States	227,520	588,680	845,525
Israel	121,855	277,189	437,479
Asia	10,000	105,840	60,840
	359,375	971,709	1,343,844

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

	%		
	Six months ended 30 June		Year ended 31 December
	2020	2019	2019
	Unaudited		Audited
United States	63.3%	60.6%	62.9%
Israel	33.9%	28.5%	32.6%
Asia	2.8%	10.9%	4.5%
	100.0%	100.0%	100.0%

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

NOTE 9 - SUBSEQUENT EVENTS

A. Issuance of shares and warrants

On 14 July 2020, the Company placed 7,333,334 ordinary shares ("New Shares") and warrants, at an issue price of 12p per share, raising gross proceeds of $1,110,000 (£880,000) in order to strengthen its balance sheet, to allow the Company to support the growing number of engagements for its 5G offering towards successful field deployments, and for general working capital purposes.

As part of the placement, on 16 July 2020, the Company issued 12 month non-transferable, warrants, as follows:

- 252,750 warrants exercisable at 12p per share, to the placing agent,
- 3,666,667 warrants exercisable at 20p per share, to the subscribers of the New Shares,
- 3,666,667 warrants exercisable at 30p per share, to the subscribers of the New Shares.

The warrants issued to the subscribers of the New Shares, contain an accelerator clause, whereby if the closing mid-market share price of the Company, exceeds the exercise price of the relevant warrant, by 10p over a 5-consecutive day period, then the Company has the right to request that these warrant holders choose to either exercise their warrants within 7 calendar days, or, to have their warrants cancelled.

In addition, parties associated with the Company participated in the shares and warrants placement by subscribing to the following amounts of shares (and equal number of above-mentioned warrants) as follows:

Members of the board of directors	1,666,666 New Shares (gross proceeds of $250,000)
Employees	333,333 New Shares (gross proceeds of $50,000)

B. Amendments to Employee Stock Option Program ("ESOP")

On 30 July 2020, the Board of Directors resolved to amend the 2013 Employee Stock Option Program, by increasing the option share pool in terms of the plan to 4.4 million ordinary shares and by extending the Program until 8 April 2030.

C. Share based compensation

On 6 July 2020, the Board of Directors' approved the granting of 240,000 employee stock options to employees, vesting over a four-year period and expiring 10 years from the date of the grant. The exercise price of these options is £ 0.205.

On 28 July 2020, the Board of Directors' approved the granting of 104,000 employee stock options to employees, vesting over an 18-month period and expiring 10 years from the date of the grant. The exercise price of these options is £ 0.12.