This document comprises a registration document (the "**Registration Document**") relating to ECI Telecom Group Ltd. ("**ECI**" or the "**Company**") prepared in accordance with the prospectus rules (the "**Prospectus Rules**") of the Financial Conduct Authority (the "**FCA**") made under section 73A of the Financial Services and Markets Act 2000 (the "**FSMA**"). The Registration Document has been approved by the FCA and has been made available to the public in accordance with Prospectus Rule 3.2.1.

The directors of the Company, whose names appear on page 27 of this Registration Document (the "**Directors**"), and the Company, accept responsibility for the information contained in this Registration Document. To the best of the knowledge of the Directors and the Company (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Registration Document is in accordance with the facts and contains no omission likely to affect the import of such information.

This Registration Document should be read in its entirety. See Part 1: "*Risk Factors*" for a discussion of certain risks and other factors that could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

ECI TELECOM GROUP LTD.

(*Incorporated under the laws of the state of Israel with registered number 51-399572-0*)

The contents of this Registration Document are not to be construed as legal, business or tax advice. Each prospective investor should consult his or her own lawyer, independent adviser or tax adviser.

This Registration Document may be combined with a securities note and summary to form a prospectus in accordance with the Prospectus Rules. A prospectus is required before an issuer can offer transferable securities to the public or request the admission of transferable securities to trading on a regulated market. However, this Registration Document, where not combined with the securities note and summary to form a prospectus, does not constitute an offer or invitation to sell or issue, or a solicitation of an offer or invitation to purchase or subscribe for, any securities in the Company in any jurisdiction, nor shall this Registration Document alone (or any part of it), or the fact of its distribution, form the basis of, or be relied upon in connection with, or act as any inducement to enter into, any contract or commitment whatsoever with respect to any offer or otherwise.

No representation or warranty, express or implied, is made and no responsibility or liability is accepted by any person other than the Company and its Directors, as to the accuracy, completeness, verification or sufficiency of the information contained herein and nothing contained in this Registration Document is, or shall be relied upon as, a promise or representation by any of the Company's advisers or any of their respective affiliates as to the past, present or future. The delivery of this Registration Document shall not, under any circumstances, create any implication that there has been no change in the business or affairs of the Company since the date of this Registration Document or that the information contained herein is correct as of any time subsequent to its date. No person is or has been authorised to give any information or to make any representation not contained in or not consistent with this Registration Document and, if given or made, such information or representation must not be relied upon as having been authorised by the Company. Without limitation, the contents of the website of the Group do not form part of this Registration Document and information contained therein should not be relied upon by any person.

Notice to overseas shareholders

The ordinary shares (the "**Shares**") of the Company referred to in this Registration Document will not be registered under the U.S. Securities Act of 1933, as amended (the "**U.S. Securities Act**"). The Shares may not be offered or sold in the United States, except to qualified institutional buyers ("**QIBs**"), as defined in, and in reliance on, the exemption from the registration requirements of the U.S. Securities Act provided in Rule 144A under the U.S. Securities Act ("**Rule 144A**") or another exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act. Any sellers of the Shares may be relying on the exemption from the provisions of section 5 of the U.S. Securities Act provided by Rule 144A. Outside of the United States, Shares may only be offered in offshore transactions as defined in Regulation S of the U.S. Securities Act. No actions have been taken to allow a public offering of the Shares under the applicable securities laws of any jurisdiction, including Israel, Canada, Australia or Japan. Subject to certain exceptions, the Shares may not be offered or sold in any jurisdiction, or to or for the account or benefit of any national, resident or citizen of any jurisdiction, including Israel, Canada, Australia, Japan. This Registration Document does not constitute an offer of, or the solicitation of an offer to subscribe for or purchase any of the Shares to any person in any jurisdiction to whom it is unlawful to make such offer or solicitation in such jurisdiction.

This Registration Document does not constitute a prospectus under the Israeli Securities Law, 5728-1968 (the "**Israeli Securities Law**"), and has not been filed with or approved by the Israel Securities Authority. In the State of Israel, this document may be distributed only to, and directed only at, and any offer of the Shares may be directed only at, investors listed in the First Addendum to the Israeli Securities Law (the "**First Addendum**"), referred to as "qualified investors", who have provided the requisite written confirmation under the First Addendum.

The Shares have not been and will not be registered or qualified for distribution by this Registration Document under the applicable securities laws of Israel, Australia, Canada, Japan. Subject to certain exceptions, the Shares may not be offered or sold in any jurisdiction, or to or for the account or benefit of any national, resident or citizen in Israel, Australia or Japan or to any person located or resident in Canada. The Shares have not been recommended by any U.S. federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this Registration Document. Any representation to the contrary is a criminal offence in the United States.

The distribution of this Registration Document and the offer and sale of the Shares in certain jurisdictions may be restricted by law, including, without limitation, the United States, Israel, Australia, Canada, Dubai, Hong Kong, Japan, Singapore, South Africa and Switzerland. No action has been or will be taken by the Company, its Directors or its shareholders (to permit a public offering of the Shares under the applicable securities laws of any jurisdiction. Other than in the United Kingdom, no action has been taken or will be taken to permit the possession or distribution of this Registration Document (or any other offering or publicity materials relating to the Shares) in any jurisdiction where action for that purpose may be required or where doing so is restricted by law. Accordingly, neither this Registration Document, nor any advertisement, nor any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Registration Document comes should inform themselves about and observe any such restrictions. Any failure to comply with such restrictions may constitute a violation of the securities laws of any such jurisdiction. In particular, no actions have been or will be taken to permit a public offering of the Shares under the applicable securities laws of any jurisdiction, including the United States, Israel, Australia, Canada, Dubai, Hong Kong, Japan, Singapore, South Africa and Switzerland. Accordingly, subject to certain exceptions, the Shares may not be offered, sold or delivered within the United States, Israel, Australia, Canada, Dubai, Hong Kong, Japan, Singapore, South Africa and Switzerland.

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Part 1
RISK FACTORS

The Group is subject to a number of risks. The reader should carefully consider the risk factors associated with the Group's business and the industry in which it operates together with all information contained in this Document including in particular, the risk factors described below.

The risk factors described below are not an exhaustive list or explanation of all risks applicable to the Group and investors should use them as guidance only. The risk factors detailed below and additional risks and uncertainties relating to the Group that are not currently known to the Group, or that the Group currently deems immaterial, may individually or cumulatively also have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

Risks relating to the Group's business and industry

1. ***If the market for 5G network solutions and software-defined networking ("SDN") and network function virtualisation ("NFV") applications does not evolve in the way the Group anticipates, it may not be able to realise a key part of its business strategy.***

A large part of the Group's research and development is invested in developing networking products and solutions for 5G networks, and a key part of the Group's growth strategy depends on its ability to gain market share for these networking products and solutions. Some Service Providers are expected to begin trials in 5G technology during 2019, however, 5G will not be widely implemented at the same time globally and the timing of its implementation will depend on the governments and communication service providers, including mobile/fixed network operators ("**CSPs**") in each country or region determining when and where 5G networks will be implemented, if at all. For example, in the United Kingdom, many CSPs are not currently expected to widely implement their 5G networks until 2020. For these reasons, the development of the market for the Group's 5G networking products and solutions may be delayed and any significant delays could have a materially adverse effect on the Group's growth strategy.

In addition, part of the Group's growth strategy involves taking advantage of the shift to SDN and NFV applications. The markets for SDN and NFV applications are currently in an early stage and, upon implementation, the market for 5G networking products and solutions will also be at an early stage, which in both cases, makes it difficult to predict important trends, including the potential growth, if any, of these markets. While it is expected that 5G will help accelerate the demand for and use of SDN and NFV applications, this will only be known once 5G is widely implemented. If the market for 5G products and solutions or SDN or NFV applications, or the impact of 5G on the demand for SDN or NFV applications, does not evolve in the way the Group anticipates, or if customers do not adopt the Group's 5G networking products and solutions or its SDN and NFV applications, a key part of the Group's growth strategy may not materialise which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

2. ***A small number of the Group's customers, including large Service Providers and Utilities and Governments customers, account for a significant portion of the Group's revenue. The loss of any of these customers or a significant reduction in their purchases from the Group could have a material adverse effect on the Group.***

A significant portion of the Group's revenue is generated from a small number of customers, including large Service Providers and government customers. For example, Bharti Airtel and the Government of Israel accounted for approximately 27% and 12% of the Group's revenue for the financial year ended 31 December 2017, respectively, and the Group's ten largest end-customers by revenue contributed approximately 67% of the Group's revenue for the financial year ended 31 December 2017. Consequently, the Group's financial results are closely correlated with the spending of a relatively small number of end-customers. The Group's business, results of operations, financial condition, cash flows and prospects can be materially and adversely affected by reductions in spending or capital expenditure budgets by its largest customers, or if these customers decide to renegotiate pricing or change other material terms in their agreements with the Group.

In addition, a number of the Group's large customers that are Service Providers have announced in the past, and may announce in the future, various procurement initiatives or efforts to reduce capital expenditures on network infrastructure. Furthermore, a number of the Group's large customers that are Service Providers either have recently announced significant acquisition transactions or are in the process of significant related integration activities. For example, Idea Cellular and Vodafone India, who were both in the Group's top 10 end-customers by revenue for the financial year ended 31 December 2017, recently completed a merger and

identified the rationalisation of combined site requirements following a consolidation of the two companies' networks as a cost saving synergy. Such transactions have in the past, and may in the future, result in spending delays or deferrals, reduction in spending or changes in preferred vendors, as the integration of combined network infrastructures proceeds and procurement strategies are determined.

Furthermore, as a number of the Group's largest customers are Service Providers, the business and results of operations of the Group can be significantly affected by market, industry or competitive dynamics adversely affecting this segment. These customers continue to face a rapidly shifting competitive landscape as cloud service operators, over-the-top ("**OTT**") providers and other content providers challenge their traditional business models and network infrastructures. In addition, these customers are subject to a variety of laws and regulations, including those relating to connection standards, deployment of services, privacy and security. Any changes to these laws and regulations, including more stringent enforcement or alternative interpretation of these laws and regulations in jurisdictions where the Group's customers are located, could affect the spending by these customers on the Group's products and solutions which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

As a result of the above factors, there can be no assurance that the Group will be able to maintain the revenue levels it has previously achieved with its customers, including CSPs and data centre connectivity providers (together, "**Service Providers**"), utilities and governments, including power, water, oil and gas, transportation, government and municipalities and national research and education networks ("**NRENs**") (defined as "**Utilities and Governments**") and defence and security network operators, including ministries of defence, security services and national/border guards (defined as "**Defence and Security**"). The loss of any of the Group's largest customers, or a significant reduction in their spending, could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

3. ***The Group faces intense competition that could materially and adversely impact its revenues and results of operations, and the Group expects the competitive landscape in which it operates to continue to broaden to include additional network solutions providers.***

The Group faces an intensely competitive market for sales of its products and solutions. Competition is intense on a global basis, as the Group and its competitors aggressively seek to capture market share and displace incumbent leaders in various markets. A small number of very large vendors have historically dominated the industry in which the Group operates, many of which have substantially greater financial and marketing resources, broader product offerings, and more established relationships with Service Providers and other customer segments than the Group does, including for example, Ciena, Huawei, Cisco, ZTE and Nokia. Because of their scale, resources and a more diverse set of product and service offerings, these larger vendors may be perceived to be a better fit for the procurement or network operating and management strategies of large service providers and other customers.

The Group also competes with a number of smaller companies that provide significant competition for a specific product, application, customer segment or geographic market, such as Adva in Europe or T8 in Russia and the Commonwealth of Independent States market. Due to the narrower focus of their efforts, these competitors may achieve commercial availability of their products more quickly or may be more attractive to customers in a particular product niche.

In addition, in some of the regions in which the Group sells networking products and solutions, the Group faces significant competition from low cost vendors, most notably those from China. Moreover, certain customers are adopting procurement strategies whereby they seek to purchase a broader set of networking products and solutions from a single vendor who may be able to provide multiple networking products and solutions such as cellular radio, transport products and/or routing functions.

The Group also expects the competition in its industry to continue to broaden and intensify as network operators pursue a more diverse range of network strategies. As these changes occur, the Directors expect the Group will compete more directly with additional networking product and solution suppliers, including IP router vendors, data centre switch providers and other suppliers or integrators of networking technology. In addition, as the Group seeks increased customer adoption of its SDN and NFV applications and network operator demands for software programmability, management and control increase, the Group expects to compete more directly with software vendors and information technology vendors or integrators of these solutions.

The Group may also face competition from system and component vendors, including those in its supply chain, that develop networking products based on off-the-shelf or commoditised hardware technology, referred to as "white box" hardware. This competition is expected to occur most notably where a customer's network strategy

seeks to emphasise deployment of such product offerings or to adopt a disaggregated approach to the procurement of hardware and software.

Competition in the Group's markets is also based on any one or a combination of the following factors:

- product functionality, speed, capacity, scalability, security and performance;
- price, cost per bit and total cost of ownership of the Group's solutions;
- incumbency and strength of existing business relationships;
- ability to offer comprehensive networking solutions, consisting of hardware, software and services;
- product development that satisfies customers' immediate and future network requirements;
- flexibility and openness of platforms, including ease of integration, interoperability and integrated management;
- ability to offer solutions that accommodate a range of different consumption models;
- space and power consumption considerations;
- manufacturing and lead-time capability; and
- services and support capabilities.

Any increase in competition, or the entry of new competitors into the Group's markets, may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

4. *The Group's revenue, gross margin and results of operations can fluctuate significantly and unpredictably from one reporting period to another.*

The Group's revenue, gross margin and results of operations can fluctuate significantly and unpredictably from one reporting period to another. The Group's ability to forecast its results of operations is largely based on its visibility into customer spending plans and projections of future revenue and gross margin. However, the Group's ability to forecast future revenues and gross margin is complicated by the fact that many of the Group's largest customers, including Service Providers, Utilities and Governments and Defence and Security customers, transact with the Group under framework contracts that do not contain minimum or guaranteed purchase order volumes but rather, allow customers to make orders at their convenience to meet their short term or long term needs. Therefore, even though the Group seeks to estimate its revenue and gross margin for a given reporting period, there is no assurance that a customer will make an order in any given reporting period. There is also no assurance as to how much a customer may order in any given period (until such time as a purchase order is issued) and no guarantee of the mixture of products that will be ordered. A shortfall in expected orders in any given reporting period can have a materially adverse effect on the Group's results of operations for that reporting period or future reporting periods. While the Group may take steps to mitigate these risks such as reducing expense levels, such steps may take time to implement and until implemented, the Group's results of operations could be lower than planned. Additionally, such steps could also have adverse implications on the Group's operations.

Another major factor that can influence the Group's revenue, gross margin and results of operations is the region of the customers from which it derives its revenue for a particular reporting period, given that prices differ from region to region based on the competitive situation in each region, with lower margins typically derived by the Group in emerging markets.

Additional factors that contribute to fluctuations in the Group's revenue, gross margin and results of operations include:

- the type of networking products or solutions chosen by the customer as different products carry different margins;
- the pace and impact of price erosion that the Group regularly encounters in its markets;
- broader macroeconomic conditions, including weakness and volatility in global, regional or local markets that affect the Group's customers;
- changes in capital spending by customers, in particular the Group's large Service Provider customers;
- changes in types of networking technology employed in customers' sites or customer networking strategies;

- order timing, volume and cancellations;
- the level of competition and pricing pressure in the Group's industry and the bargaining power between the Group and its customers;
- the negative impact of commercial concessions or unfavourable commercial terms required to maintain incumbency or secure new opportunities with key customers in new or existing markets;
- the level of success in achieving product cost reductions and efficiency improvements in the Group's supply chain;
- the Group's incurrence of customer penetration and start-up costs, including lower margin phases of projects required to support initial deployments, gain new customers or enter new markets;
- the impact of technology-based price compression and the introduction or substitution of new platforms for existing solutions;
- the timing of revenue recognition on sales;
- the mix of revenue by product segment and customer in any particular reporting period;
- installation service availability and readiness of customer sites;
- availability of components and manufacturing capacity;
- adverse impact of foreign exchange; and
- seasonal effects in the Group's business.

Fluctuations of these and other factors may have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

5. *The Group's business and results of operations could be materially and adversely affected by unfavourable changes in macroeconomic and market conditions and reductions in the level of spending by customers in response to these conditions.*

The Group's business, results of operations, financial condition, cash flows and prospects depend significantly on favourable general economic conditions. Demand for the Group's networking products and solutions could be materially adversely affected by unfavourable or uncertain macroeconomic and market conditions, globally or in a particular region or country where the Group operates. Macroeconomic and market conditions could be adversely affected by a variety of political, economic or other factors in Israel, or other countries where the Group's products are developed, manufactured or sold or where the Group's customers are located or do business. For example, the financial crisis in Russia which began in the second half of 2014 resulted in the collapse of the Russian Ruble and thereby adversely impacted the Group's business in Russia. These factors could adversely affect spending levels of customers and their end users and create volatility or deteriorating conditions in the markets in which the Group operates.

Macroeconomic and market uncertainty or weakness could result in:

- reductions in customer spending and delay, deferral or cancellation of network infrastructure initiatives;
- increased competition for fewer network projects and sales opportunities;
- increased pricing pressure that may adversely affect revenue, gross margin and profitability;
- difficulty forecasting operating results and making decisions about budgeting, planning and future investments;
- increased overhead, production or procurement costs as a percentage of revenue;
- customer financial difficulty, including longer collection cycles and difficulties collecting accounts receivable or write-offs of receivables; and
- increased risk of charges relating to excess and obsolete inventories and the write-off of intangible assets.

Reductions in customer spending in response to unfavourable or uncertain macroeconomic and market conditions, globally or in a particular region or country where the Group operates, could materially and adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

6. ***Investment in research and development for networking products and solutions for which there is not adequate market demand, or failure to sufficiently or timely invest in technologies for which there is market demand, could materially and adversely affect the Group's revenue and profitability.***

The market for networking products and solutions is characterised by rapidly evolving technologies, changes in market demand and increasing adoption of software-based networking solutions. The Group regularly engages in significant research and development activity to sustain or enhance the Group's or its customers' existing networking products and solutions and to develop or acquire new technologies.

There is often a lengthy period between commencing these development initiatives and bringing new or improved networking products and solutions to market. During this time, technology preferences, customer demand and the markets for the Group's networking products and solutions, or those introduced by the Group's competitors, may move in directions that the Group had not anticipated. There is no guarantee that the Group's new networking products or solutions, or enhancements to the Group's existing networking products and solutions, will achieve market acceptance or that the timing of market adoption will be as predicted. As a result, there is a significant possibility that the Group's decision to invest heavily in research and development will not meet the Group's expectations, and investment in some projects may be unprofitable.

There is also a possibility that the Group may miss a market opportunity because it fails to invest, or invests too little or too late, in a technology, product or enhancement sought by its customers. Changes in market demand or investment priorities may also cause the Group to discontinue existing or planned development for new products or features, which can have a disruptive effect on its relationships with customers. If the Group fails to make the right investments or fails to make them at the right time, this could impact its competitive position and have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

7. ***Changes in networking or procurement strategies by the Group's customers could materially and adversely affect its business, competitive position and results of operations.***

Growing bandwidth demands and efforts by Service Providers to reduce costs have led to Service Providers considering a diverse range of approaches to the design and procurement of network infrastructure. Global customers with a centralised procurement department often dictate global terms and pricing which, in some territories, may create a challenge for the Group to meet. Service Providers have a number of different procurement approaches available to them, including:

- the traditional system of procuring fully integrated solutions including hardware, software and services from the same vendor;
- the procurement of a fully integrated hardware solution from one vendor with the separate use of a service provider's own SDN-based controller;
- the procurement of an integrated photonic line system with open interfaces from one vendor and the separate or "disaggregated" procurement of modem technology from a different vendor;
- the use of published reference designs and open source specifications for the procurement of off-the-shelf or commoditised hardware (often referred to as "white box" hardware) to be used with open source software; or
- leasing, licensing, vendor financing, subscription or other variations of networking products or solutions from one or a number of vendors.

In parallel, Service Providers are also exploring procurement alternatives for software solutions, ranging from integrated and proprietary software platforms to fully "open source" software. The Group believes that Service Providers will continue to consider a variety of different usage models.

Many of these approaches are in their very early stages of development and evaluation, and the types of models and their levels of adoption will depend in significant part, on the nature of the circumstances and strategies of particular Service Providers. The Group believes that the potential for different approaches to the procurement of network infrastructure will require Service Providers to evolve and broaden their existing commercial models over time.

Adoption of a range of procurement models may also alter and broaden the Group's competitive landscape to include other technology vendors, including component vendors and software vendors. If the Group is unable to offer attractive networking products and solutions or commercial models that accommodate the range of procurement models ultimately adopted by the Group's customers or within the Group's markets, this could

have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

8. *The Group may experience delays in the development and production of its networking products and solutions that may negatively affect its competitive position and business.*

The Group's networking products and solutions, including the Group's Apollo and Neptune products, are based on complex technology and the Group can experience unanticipated delays in developing and introducing these products and solutions to market or in producing upgrades or newer versions. Delays in product development efforts by the Group may impact its reputation with customers, its ability to seize market opportunities and the timing and level of demand for its products. The development of new technologies may increase the complexity of supply chain management or require the acquisition, licensing or interworking with the technology of third parties. As a result, each step in the development cycle of the Group's networking products and solutions presents serious risks of failure, rework or delay, any one of which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group may also encounter delays relating to software development, engineering development activities, design, sourcing and manufacture of critical components and the development of prototypes. In addition, intellectual property disputes, failure of critical design elements, and other execution risks may delay or even prevent the release of these products and solutions. If the Group does not successfully develop or produce products and solutions in a timely manner, its competitive position may suffer, and this could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

9. *Networking product and solution sales to the Group's new or existing large customers, including Service Providers, Utilities and Governments and Defence and Security customers, often involve lengthy sales cycles and protracted contract negotiations that may require the Group to agree to commercial terms or conditions that negatively affect pricing, risk allocation, payment and the timing of revenue recognition.*

The Group's sales initiatives, particularly with large Service Providers, Utilities and Governments and Defence and Security customers, often involve lengthy sales cycles. Such sales initiatives often involve a significant commitment of time and resources by the Group, and the Group's customers may require extensive product testing, laboratory or network certification, network or region-specific product certification and applicable homologation requirements for deployment in their networks. The Group may also be required to bid in a tender process when these large customers undertake significant changes to their networks, such as replacing their current network with new or different technology. Even after entering into a contract with a customer, the length of deployment time can vary depending upon the customer's schedule, site readiness, the size of the network deployment, the degree of custom configuration required and other factors. Additionally, these sales also often involve protracted and sometimes difficult contract negotiations in which the Group may, in certain instances, deem it necessary to agree to unfavourable contractual or commercial terms that adversely affect pricing, expose it to penalties for delays or non-performance and/or require it to assume a disproportionate amount of risk.

To maintain relationships and opportunities with key large customers, the Group may be required to offer discounted pricing, make commercial concessions or offer less favourable terms as compared to the Group's historical business arrangements with these customers. The Group may also be requested to provide deferred payment terms, vendor or third-party financing or other alternative purchase structures that extend the timing of payment and revenue recognition. Certain of the Group's large competitors may be able to offer more attractive payment terms or financing arrangements of the Group. Alternatively, customers may insist upon terms and conditions that the Group deems too onerous or not in the Group's best interest, and it may be unable in certain limited cases to reach a commercial agreement. As a result, the Group may incur substantial expense and devote significant time and resources to potential sales opportunities that never materialise or result in lower than anticipated sales or margins which would have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

10. *The Group is looking to benefit from partnerships to sell its solutions, and its failure to effectively develop and manage these partnerships could materially and adversely affect its business and result of operations.*

The Group is looking to benefit from a number of strategic relationships with third-parties, which it refers to as partnerships, in order to sell into certain geographic markets, diversify its customer base and broaden the application for its products and solutions and it expects these partnerships to be an important part of the

Group's business in the future. For example, in early 2018, the Company and Ericsson signed a Global Purchase Agreement under which ECI's fifth generation mobile network ("5G") optical solutions would be integrated into Ericsson's 5G mobile transport offering. The Group expects this partnership to be a substantial growth lever to its business by allowing ECI to access new clients and territories globally; however, successful growth through this partnership as well as the Group's other partnerships, is dependent upon the Group's ability to identify suitable partners, negotiate transactions on favourable terms, and ultimately complete such transactions. In addition, there are numerous risks associated with entering into such partnerships, including:

- uncertainties in assessing the value, strengths and potential profitability of, and identifying the extent of all weaknesses of, potential partners;
- undisclosed or unanticipated risks with respect to customers, suppliers, employees, government authorities or other parties;
- adverse effects on existing customer and supplier relationships;
- difficulties associated with the entry into markets in which the Group has little or no direct prior experience;
- potential break-downs in the partnerships or disagreement between the parties on important matters;
- unanticipated changes in business, industry or general economic conditions that affect the assumptions underlying the Group's rationale for pursuing the partnerships; and
- allowing future market penetration to be handled by partners, which may or may not succeed.

There can be no assurance that the Group will successfully identify partners or that it will realise the expected benefits of these partnerships. The Group's failure to effectively identify, develop and manage third-party partnerships could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

11. *Product performance problems and undetected errors affecting the performance, reliability or security of the Group's products could damage its business reputation and negatively affect its results of operations.*

The development and production of sophisticated hardware and software for communications network equipment is highly complex. Some of the Group's products can only be fully tested when deployed in communications networks or when carrying traffic with other equipment, and software products may contain bugs that can interfere with expected performance. As a result, undetected defects or errors, and product quality, interoperability, reliability and performance problems are often more acute for initial deployments of new products and product enhancements. Unanticipated product performance problems can relate to the design, manufacturing, installation, operation and interoperability of the Group's products. Undetected errors can also arise as a result of defects in components, software or manufacturing, installation or maintenance services supplied by third parties, and technology acquired from or licenced to or from third parties. From time to time, the Group has had to replace certain components, provide software remedies or other remediation in response to defects or bugs, and it may have to do so again in the future. Remediation of such issues could materially adversely affect the Group's business, reputation and results of operations.

In addition, unanticipated security vulnerabilities relating to the Group's networking products and solutions or the activities of its supply chain, including any actual or perceived exposure of the Group's networking products or solutions to malicious software or cyber-attacks, could adversely affect its business and results of operations. Product performance, reliability, security and quality problems can negatively affect the Group's business, and may result in some or all of the following effects:

- damage to the Group's reputation, declining sales and order cancellations;
- increased costs to remediate defects or replace products;
- payment of liquidated damages, contractual or similar penalties, or other claims for performance failures or delays;
- increased warranty expense or estimates resulting from higher failure rates, additional field service obligations or other rework costs related to defects;
- increased inventory obsolescence;

- costs and claims that may not be covered by liability insurance coverage or recoverable from third parties; and
- delays in recognising revenue or collecting accounts receivable.

These and other consequences relating to undetected errors affecting the performance, reliability and security of the Group's products could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

12. ***The Group is exposed to foreign currency exchange rate fluctuations and transaction risk as a result of its substantial global operations, which may materially and adversely affect its financial results.***

The Group's functional currency is the U.S. dollar. As a result of its global operations, the Group is exposed to the risk of foreign currency exchange rate fluctuations. The Group's primary currency exposures are to the New Israel Shekel ("**NIS**") and the Euro. A significant portion of the Group's expenses, principally salaries and related personnel expenses, are paid in NIS whereas most of its revenues are generated in U.S. dollars.

During the financial year ended 31 December 2017, the NIS appreciated significantly against the U.S. dollar, which considerably increased the U.S. dollar value of the Group's expenses in Israel in that period. Should the NIS continue to appreciate against the U.S. dollar, the U.S. dollar value of these expenses will increase and this could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

In addition, approximately 28% of the Group's international sales in the year ended 31 December 2017 were denominated in currencies other than U.S. dollars, such as the Euro, the Pound Sterling and the Indian Rupee, which may expose the Group to gains and losses when translating these revenues to U.S. dollars. Additionally, a depreciation in the local currencies of the Group's customers relative to the U.S. dollar could cause customers to decrease or cancel orders or default on payment, which could harm the Group's results of operations.

In the last few years, the Group has not hedged against currency fluctuations and does not currently hedge against such effects, which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects. The Group may enter into hedging arrangements after the date of this Registration Document. However, these hedging arrangements may not be effective or may be insufficient with respect to the level of coverage regarding the Group's financing exposures and the Group may fail to successfully implement and manage these hedging arrangements. There can be no assurances that fluctuations in currency rates and exposures will not have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

13. ***The Israel Innovation Authority ("IIA") government grants received by the Group for research and development expenditures have been significantly reduced in the last two years and may be reduced further or eliminated due to government budget cuts or reallocation of the government's resources. These grants also place certain limitations on the Group's ability to manufacture products and transfer or licence know-how outside of Israel and require the Group to satisfy specified conditions.***

The Group currently receives grants from the Government of Israel through the IIA for the financing of a portion of the Group's research and development expenditures in Israel pursuant to the Encouragement of Research, Development and Technological Innovation in the Industry Law 5744-1984 (together with its predecessor legislation, the "**Innovation Law**"). In the last two years, as a result of changes in the policy of the IIA, the grants awarded to the Group have declined from approximately $14.3 million in 2016 to approximately $10.6 million in 2017. The Group has received $3.7 million of such grants during 2018 up to 30 June 2018. The IIA may reallocate or further reduce or eliminate these grants in the future, which could require the Group to identify alternative sources of funding for its research and development in Israel; the Group's inability to obtain such funding could have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

The Group is required to repay the grants received from the IIA in the form of royalties paid on proceeds from the sale of products that were developed using this funding and services associated with such products. The royalties are payable in an amount of up to 100% of the U.S. dollar-linked value of the amount of the grant (which may be increased under certain circumstances) (referred to as the "ro**yalty ceiling**") plus interest at the rate of 12-month London Inter-bank Offered Rate ("**LIBOR**") on the date that the grant application is made. The Group's royalty rates are generally between 1.3% and 5% of the proceeds from the sale of relevant products and services. The Group believes that as at 31 December 2017, its maximum future royalties obligation to the IIA, based on grants received from the IIA and not repaid as of such date and subject to an

estimation of current and future sales of IIA-funded products, was approximately $52.2 million. Such amount does not include approximately $3.9 million royalties (excluding any interest and linkage since 23 November 2011) that the IIA claims to be owed by the Group and that are disputed by the Group. While the Group believes that such disputed royalties are not owed to the IIA and would vigorously defend any such claim made by the IIA, there can be no assurance that the IIA will not seek to take legal or other action (including any set-off) with respect to the disputed royalties.

The terms of the IIA grants generally require that products developed with grants be manufactured in Israel, unless approval for transferring such manufacturing outside Israel is received from the IIA, however, such approval is not required for the transfer of manufacturing outside Israel of up to 10% of the manufacturing. Such approval may be provided by the IIA in connection with the approval of the grant application itself (as the Group has requested in its grant applications since 2013), in which case the royalty repayment rate is increased by 1% with respect to any such approved percentage. If manufacturing of IIA-funded products is transferred outside Israel (subject to IIA approval) in excess of the percentage approved by the IIA in connection with the grant approval, then the repayment rate is increased by 1% and the royalty repayment amount with respect to such products may be increased to up to three times the amount of the grants received (plus interest at the rate of 12-month LIBOR on the date that the grant application is made).

IIA prior approval is also required for the sale, licensing, distribution or other transfer (referred to as a transfer) of know-how created, in whole or in part, in connection with an IIA-funded project to a third party outside Israel. If such IIA approval is received and the know-how is transferred outside Israel, a redemption fee is typically required to be paid to the IIA, which is calculated according to a formula provided under the Innovation Law, up to a maximum redemption fee of no more than either (i) three times (if certain prescribed research and development activities are retained in Israel); or (ii) six times the amount of the grants received (plus accrued interest) for the applicable know-how being transferred, subject to the deduction of royalties previously paid to the IIA.

If the IIA implements additional or more stringent restrictions on transfer of manufacturing activities and transfer of funded know-how outside Israel under the Innovation Law, it could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

14. *The Group's reliance upon third-party component suppliers, including sole and limited source suppliers, exposes its business to additional risk and could limit sales, increase its costs and harm customer relationships.*

The Group maintains a global sourcing strategy and depends on third-party suppliers in international markets for support in its product design and development, and in the sourcing of key product components and subsystems. The Group's products also include optical, electronic and semi-conductor components for which reliable, high-volume supply is often available only from a single or limited source, and if any of the vendors offering such items cease to sell to the Group for any reason it could materially impact the ability of the Group to provide the products and solutions required by its customers on a timely basis and could cause the cost of production to rise significantly. Furthermore, increases in market demand for such components (including by the Group's competitors increasing their demand) or scarcity of resources or manufacturing capability have resulted, and may in the future result in, shortages of important components for the Group's products or solutions or present product allocation challenges, deployment delays and increased lead times. This could impact the Group's ability to meet development and delivery commitments. These and other challenges affecting the Group's suppliers could expose its business to increased costs, loss or lack of supply, or discontinuation of components that could result in lost revenue, additional product costs, increased lead times and deployment delays that could harm its business and customer relationships.

In addition, the Group does not have any specific guarantees of supply from these third parties and in certain cases it is relying upon temporary commercial arrangements or standard purchase orders. As a result, there is no assurance that the Group will be able to secure the components or subsystems that it requires, in sufficient quantity and quality and on reasonable terms. Moreover, the Group's access to necessary components could be adversely impacted by competition from component vendors, including those in the Group's supply chain, that develop competing networking products based on off-the-shelf or commoditised hardware technology, referred to as "white box" hardware. The loss of a source of supply, or insufficient availability of key components, could require the Group to locate an alternate source or redesign its products, either of which could result in business interruption and increased costs and could negatively affect product gross margin and results of operations. The Group's business and results of operations would be negatively affected if the Group were to experience any significant disruption or difficulties with key suppliers affecting the price, quality, availability or timely delivery of required components.

The Group has also entered into agreements with strategic supply partners that permit it to distribute their products or technology. The Group relies upon these relationships to add complementary products or technologies, to diversify the Group's product portfolio or to address particular customers and geographic markets. The Group has also entered into additional original equipment manufacturer ("**OEM**"), resale or similar strategic arrangements. The Group may incur unanticipated costs or difficulties relating to the Group's resale of third-party products. Third-party relationships could expose the Group to risks associated with the business, financial condition, intellectual property rights and supply chain continuity of such partners, as well as delays in their development, manufacturing or delivery of products or technology. The Group may also be required by customers to assume warranty, indemnity, service and other commercial obligations, including potential liability to customers, greater than the commitments, if any, made to it by the Group's supply partners. Some of the Group's strategic supply partners are relatively small companies with limited financial resources. If they are unable to satisfy their obligations to the Group or its customers, the Group may have to expend its own resources to satisfy these obligations. Exposure to these risks could harm the Group's reputation with key customers and could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

15. ***The Group relies upon two electronics manufacturing service ("EMS") providers and its business and results of operations may be materially and adversely affected by risks associated with their businesses, financial condition and the geographies in which they operate.***

The Group's supply chain includes long-term contracts with two leading EMS providers; Flex Ltd. (formerly Flextronics Telecom Systems Limited) ("**Flex**") and Eastern Communication Co. Ltd ("**EastCom**"). The Group has had supply arrangements in place with Flex since 2008 following the acquisition by Flex of the Group's manufacturing facility in Ofakim, Israel. In addition, EastCom has been manufacturing products for the Group for over 20 years. Flex manufactures products for the Group in Ofakim, Israel and for a subsidiary of the Group in the United States. EastCom manufactures products for the Group in Hangzhou, China. The Group relies upon them to perform a substantial portion of the Group's supply chain activities, including component sourcing, manufacturing, product testing and quality, and fulfilment and logistics relating to the distribution and support of the Group products. There are a number of risks associated with the Group's dependence on these EMS providers, including:

- reduced control over delivery schedules and planning;
- reliance on the quality assurance procedures of these EMS providers;
- potential uncertainty regarding manufacturing yields and costs;
- availability of manufacturing capability and capacity, particularly during periods of high demand;
- availability of sufficient credit lines from its EMS providers;
- risks and uncertainties associated with the locations or countries where the Group's products are manufactured, including potential manufacturing disruptions caused by social, geopolitical or environmental factors;
- changes in Israeli, American or Chinese law or policy governing foreign trade, manufacturing, development and investment in the countries where the Group's products are currently manufactured, including The World Trade Organisation Information Technology Agreement or other free trade agreements;
- limited warranties provided by the EMS providers;
- potential changes to favourable accounting payment terms with the EMS providers; and
- potential misappropriation of the Group's intellectual property.

These and other risks could impair the Group's ability to fulfil orders, harm its sales and adversely impact its reputation with customers.

In addition, the Group's manufacturing contract with Flex in Israel will expire on 31 March 2019 and its manufacturing contract with EastCom will expire on 31 December 2020. If the Group were unable to enter into new manufacturing contracts with these EMS providers on suitable commercial terms, or if for any reason these EMS providers were unable or unwilling to continue manufacturing the Group's products or components of its products or discontinued their operations, the Group would be required to find alternative EMS providers. Furthermore, certain large customers of the Group could from time to time specify requirements for the geographical location where the Group's products are made. In any of these cases, the process of finding a new

and suitable EMS provider and commencing volume production is expensive and time-consuming. Any difficulty finding a suitable EMS provider could lead to delays in manufacturing, which would adversely impact the Group's revenues and existing customer relationships.

Furthermore, in certain cases, the Group provides a warranty, guarantee or other contractual assurances to its customer and does not receive full back-to-back coverage from its EMS providers. In such circumstances, if a Group customer makes a claim on the Group based on the contractual assurance it has received from the Group, this could result in unplanned costs to the Group and adversely impact its relationship with the customer which would have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

16. ***The Group's success depends on its ability to attract and retain specialised personnel. If these individuals leave without effective replacements, the Group's operations may suffer.***

The Group's performance largely depends on the talents and efforts of highly skilled individuals. The Group's future success depends on the continuing ability to identify, hire, develop, motivate, and retain highly skilled personnel for all areas of the organisation and in various countries. In particular, in the future, the Group may incur increased expenses to recruit qualified personnel in Israel, which is highly competitive.

The Group's research and development facilities are located in Israel, India and China. In each of these areas, there exists a large number of hi-tech and related industry companies and the competition for skilled employees especially in the area of research and development is intense. If wages increase, or other employment conditions change in these regions due to a higher demand for a skilled work force or otherwise, or if the Group is unable to recruit or retain highly skilled workers, it could raise the Group's personnel costs and delay development, which would adversely impact the Group's business and results of operations.

The success of the Group's business is dependent to a large degree on the continued services of its directors and executive officers and other key personnel who have extensive experience in the industry. If the services of any of these integral personnel are lost and the Group fails to manage a smooth transition to new personnel, the business could suffer. The Group does not carry key person insurance on any executive officers or other key personnel. The Group has entered into employment agreements with certain executive officers and key employees that contain non-compete covenants. However, these non-compete covenants may themselves not be enforceable in certain jurisdictions (including in Israel). This means that the Group may be unable to prevent its competitors from benefiting from the expertise of such former employees, which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

17. ***Changes in government regulation affecting the communications industry and the businesses of the Group's customers could harm its prospects and results of operations.***

Many of the Group's largest customers, including Service Providers, Utilities and Governments and Defence and Security customers, are subject to the rules and regulations of the relevant countries in which they operate, while others participate in and benefit from government-funded programmes for the development of network infrastructures. These regulatory requirements and funding programmes are subject to changes that may adversely impact the Group's customers, with could have a material adverse impact on the Group's business.

In addition, changes in regulatory tariff requirements or other regulations relating to pricing or terms of carriage on communications networks could slow the development or expansion of network infrastructures and have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

18. ***The international scale of the Group's sales and operations exposes it to additional risks and expense that could materially and adversely affect its results of operations.***

As a global business, the Group markets, sells and provides networking products and services globally and as a result, is required to maintain personnel in numerous countries and rely upon a global supply chain for sourcing important components and manufacturing its products. The Group's international sales and operations are subject to inherent risks, including:

- the impact of economic conditions in countries in which it operates or provides networking products and solutions;
- greater difficulty in collecting accounts receivable and longer collection periods;
- difficulty and cost of staffing and managing foreign operations;

- higher incidence of corruption or unethical business practices;
- less protection for intellectual property rights in some countries;
- tax and customs changes that adversely impact the Group's global sourcing strategy, manufacturing practices, transfer pricing, or competitiveness of its products and services;
- social, political and economic instability;
- compliance with certain testing or homologation or customisation of products to conform to local standards; and
- natural disasters, epidemics and acts of war or terrorism.

The Group also manufactures a large portion of its products and solutions in China. The U.S. and other countries have expressed a willingness to impose new taxes or trade tariffs on imported goods from China. Any significant new taxes or trade tariffs or changes to free trade agreements, trade protection measures, export compliance, domestic preference procurement requirements, qualification to transact business or additional regulatory requirements, in particular in respect to goods manufactured in China, could materially adversely affect the Group's current or future business.

The Group's international operations are also subject to complex laws and regulations, including anti-bribery and corruption laws, antitrust or competition laws, environmental regulations, and data protection and data privacy laws, among others. In particular, in recent years there has been a substantial increase in anti-bribery law enforcement activity by U.S., European and Israeli regulators, and the Group currently operates and seeks to operate in certain parts of the world that are recognised as having a greater potential for corruption. The Group must also assess and qualify resellers, distribution partners and sales agents under the Group's distribution channel programmes to seek to ensure their understanding of and willingness and ability to adhere to these laws and regulations. Violations of any of these laws or regulations could result in fines and penalties, criminal sanctions, prohibitions on the conduct of the Group's business and on its ability to offer products and services in certain geographies, and significant harm to its business reputation. The Group has established policies and procedures intended to ensure compliance with these laws and regulations and to mitigate these risks, however, such policies and procedures may not always be wholly effective and, in particular, may not protect the Group from all acts committed by its employees or third-party vendors, including contractors, agents and services partners. Additionally, the costs of complying with these laws (including the costs of investigations, auditing and monitoring) could adversely affect the Group's current or future business.

The Group is also required to comply with sanctions or trade embargos administered or enforced by relevant government authorities, including, but not limited to, the U.S. Department of the Treasury's Office of Foreign Assets Control, the U.S. Department of State, the U.S. Department of Commerce, the United Nations Security Council, the European Union, Her Majesty's Treasury and the Israeli Ministry of Finance. This has the effect of limiting or preventing sales in certain territories and to certain sanctioned third parties.

The success of the Group's international sales and operations will depend, in a large part, on its ability to anticipate and manage these risks effectively. The Group's failure to manage any of these risks could harm its operations, reduce its sales, and could give rise to liabilities, costs or other business difficulties that could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

19. *Employee strikes and labour-related disruptions involving the Group may materially and adversely affect its operations, and agreements with unions and workers' committees could reduce the Group's ability to manage its cost base.*

The Group had approximately 767 full time equivalent employees ("**FTEs**") in Israel as at 30 June 2018. Since 2016, the Group's Israeli employees have been represented by the Histadrut—General Federation of Labor in Israel (the largest trade union federation in Israel) ("**Histadrut**") and the Group's management has been negotiating with representatives from the Histadrut for the purpose of concluding a collective bargaining agreement, which would apply to the Group's Israeli employees at ECI Telecom Ltd. and Negev Telecom Ltd. ("**Negev**") and would regulate matters regarding certain employee rights and benefits and other organisational and labour matters. While the Group is expecting to reach an agreement in the coming months, negotiations are still ongoing.

In January 2018, during the negotiation period, the Group's employees held a three-day strike primarily in reaction to certain employee layoffs announced by the Group in January 2018, following which an agreement was reached with the Histadrut regarding the number of employees to be laid-off and increased redundancy pay

to such employees based on a formula set forth in the agreement. The Group may face additional strikes in the course of the negotiations. If an agreement is not reached, the relationship between the Group and its employees could deteriorate in the future. Furthermore, while typically a collective bargaining agreement would contain undertakings of the employees to abstain from industrial action (such as strikes), in limited circumstances labour disputes and work disruptions occur even after an agreement is reached when events arise that are not governed by the agreement (such as if the agreement does not specifically address the event of a company restructuring or merger or acquisition or other liquidity event or future layoffs, if sought by management).

If a strike or other action by labour in the future were to cause a work stoppage or other slowdown at one or more of the Group's offices or research and development centres, the Group could experience significant disruption to its operations. Labour unrest or strikes associated with the Group's operations could also damage its reputation with customers or in the market generally.

While the Group seeks to negotiate an increase in labour costs (e.g., cost of salaries and employee benefits of the Israeli employees) on terms that will allow it to continue to offer its products at competitive prices, the Group may experience increases in labour costs as a result of the negotiation of collective bargaining agreements, which are likely to apply to substantial portions of the workforce of the Group in Israel (typically, senior employees and employees in positions that require a special degree of trust are excluded). Any limitation in such collective bargaining agreement or other arrangement on the Group's ability to adjust workforce headcounts or salaries or to restructure its business in response to difficult economic conditions could also adversely affect the Group's business, financial condition, results of operations and prospects.

Certain of the Group's customers and suppliers may also have unionised workforces. In such event, a labour dispute involving the Group's customers or suppliers may also materially and adversely affect the Group's business, financial condition, results of operations, cash flows and prospects.

20. ***The Group may become subject to claims of intellectual property infringement by third parties that, regardless of merit, could result in litigation and materially and adversely affect its business, results of operations, financial condition, cash flows and prospects.***

The Group's success largely depends on its ability to use and develop its technology without infringing the intellectual property rights of third parties, including patents, copyrights, trade secrets and trademarks. The Group may be subject to litigation involving claims of patent infringement or violation of other intellectual property rights of third parties. The Group has been from time to time, the target of so-called "patent trolls", companies that do not manufacture or sell products and whose sole activity is to assert patent rights against alleged infringers in an attempt to collect licensing fees. In addition, the Group licences and utilises certain third party "proprietary" and "open source" software as part of its solutions offerings. An author or another third party that distributes such third party or open source software could allege that the Group had not complied with the conditions of one or more of these licences. Any such claims, regardless of merit, could result in litigation, which could result in substantial expenses, divert the attention of management, cause significant delays, materially disrupt the conduct of the business and have a material and adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

As a consequence of such claims, the Group could be required to pay substantial damages, develop non-infringing technology, enter into royalty-bearing licensing agreements, stop selling some or all of its products or solutions or re-brand certain products or solutions. If it appears necessary, the Group may seek to licence the intellectual property that the Group is alleged to have infringed, potentially even if the Group believes such claims to be without merit. However, such licencing agreements may not be available on acceptable terms, or at all. If the Group cannot obtain required licences, or if existing licences are not renewed, litigation could result. Litigation is inherently uncertain and any adverse decision could result in a loss of proprietary rights, subject the Group to significant liabilities, require the Group to seek licences from others and otherwise negatively affect the Group's business operations.

21. ***The Group may be required to write off significant amounts of inventory as a result of its inventory purchase practices, the obsolescence of product lines or unfavourable market or contractual conditions.***

Many of the Group's largest customers, including Service Providers, Utilities and Governments and Defence and Security customers transact with the Group under framework contracts that do not contain minimum or guaranteed purchase order volumes but rather, allow customers to make orders at their convenience to meet their short term or long-term needs. As a result, in order to avoid delays and meet customer demand for shorter delivery times, the Group is often required to place orders with manufacturers and component suppliers before

receiving customer orders. The Group makes forecasts for such orders based on past spending patterns of the Group's customers, its familiarity with the needs of its customers' requirements and certain network requirements of its customers that are set out in framework contracts. However, if the Group fails to accurately forecast the manufacturing requirements of the Group to fulfil future orders, it may either be delayed in fulfilling these orders or be left with a backlog of excess products that may not be able to be sold to other customers in the future, which may need to be written off.

In addition, the Group's products are highly configurable, requiring the customer to choose based on its networking capacity needs, and certain new products have overlapping feature sets or application with existing products. Accordingly, it is possible that customers may forgo purchases of certain products that the Group has ordered based on forecasts of customer demand in favour of a different variation of the Group's product or a different or newer product. The Group may also be exposed to the risk of inventory write-offs as a result of certain supply chain initiatives, including consolidation and transfer of key manufacturing activities.

If the Group is required to write off or write down a significant amount of inventory, this could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

22. *The Group may be unable to protect its intellectual property rights and proprietary information and prevent third parties from making unauthorised use of its products and technology.*

The Group's intellectual property rights and proprietary information are important to its business. The Group attempts to protect its intellectual property rights through a combination of know-how, patents, trade secrets, trademarks and copyrights, as well as restrictions in non-disclosure agreements. The Group's policy requires that employment, subcontracting and consultancy contracts include clauses requiring employees, contractors and consultants to assign all of the inventions and intellectual property rights they develop in the course of their employment, contracting or consultancy, or the economic benefits thereof, to the Group and that all such persons sign confidentiality agreements in which they agree not to disclose or misuse any confidential information. However, there can be no assurance that the Group's confidentiality agreements or other agreements with employees, contractors or consultants will adequately protect the Group's intellectual property rights, know-how and other proprietary information nor can the Group predict the enforceability of such agreements under the various jurisdictions in which it operates. In particular, because the protection of confidential information ultimately relies on the discretion of individuals who hold this information, there can be no assurance that they will not breach these agreements. Furthermore, the steps the Group has taken and may take in the future may not prevent misappropriation of the Group's proprietary solutions or technologies, particularly in respect of former officers and employees or in foreign countries where laws or law enforcement practices may not protect the Group's intellectual property rights and other proprietary information as fully as in the United States, the United Kingdom and the European Union. Although the Group continues to monitor court precedents, there have been trends in various countries to limit the enforceability of clauses such as those requiring assignment of inventions when an employee leaves a company. See also "*—Risks relating to the Company's domicile and operations in Israel—The Company may become subject to claims for remuneration or royalties for assigned service inventions rights by its employees, which could result in litigation and adversely affect the Company's business*."

Trade Secrets. Some of the Group's trade secrets and know-how, such as the Group's software algorithms, are stored electronically and thus highly portable. The Group employs physical and electronic security systems designed to protect its servers from unauthorised access. Despite these efforts, third parties could gain access to the Group's know-how and trade secrets, which could cause the Group to lose its competitive advantage resulting from such know-how or trade secrets. In addition, third parties could successfully reverse engineer the Group's products. If any of the Group's competitors were to gain access to any of its trade secrets, know-how or other technologies, whether or not protected by a patent or other intellectual property rights, or otherwise independently develop this information, it could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

Patents. The Group has filed various patent applications for its networking products and solutions. The Group cannot ensure that any of the patent applications will be granted or that the claims allowed on any issued patents will be sufficiently broad to protect the Group's technology or products. Any issued patents may be challenged, invalidated or circumvented, and any rights granted under these patents may not actually provide adequate defensive protection or competitive advantages. The majority of the Group's patents are filed in the United States. Patent applications in the United States are typically not published until 18 months after filing, or, in some cases, not at all, and publications of discoveries in industry-related literature lag behind actual discoveries. The Group cannot be certain that it was the first to make the inventions claimed in its pending patent applications or that it was the first to file for patent protection. Because some patent applications are

confidential for a period of time, there is also a risk that the Group could adopt a technology without knowledge of a pending patent application, and that the technology would infringe third-party patent once that patent is issued. Additionally, the process of obtaining patent protection is expensive and time-consuming, and the Group may not be able to prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. The Group also may choose not to pursue patents or other protection for innovations that later turn out to be important.

Trademarks. The Group relies on its trademarks, trade names, and brand names to distinguish its products and solutions from the products and solutions of its competitors and has registered or applied to register certain of these trademarks in key markets. However, occasionally third parties may have already registered identical or similar signs for products or solutions that also address the Group's market. If the Group is unable to adequately protect its trademarks, third parties may use the Group's brand names or trademarks similar to the Group's in a manner that may cause confusion to users and confusion in the market, which could decrease the value of the brand and harm the Group's reputation. The Group relies in part on brand or trademark names and trademark protection to enforce its intellectual property rights. Efforts by third parties to limit use of the Group's brand names or trademarks and barriers to the registration of its brand names and trademarks in various countries may restrict the Group's ability to promote and maintain a cohesive brand throughout key markets. There can also be no assurance that pending or future trademark applications will proceed to registration in a timely manner or at all, or that such registrations will effectively protect the Group's brand names and trademarks. Many of the Group's products or marketing slogans use terms that cannot be legally trademarked (although the Group does claim registration rights) since they are either known terminology in the industry or not sufficiently unique.

In addition to the above, a substantial part of the latest technology developed by the Group purposefully includes open platforms, use of open source code, standards, and other software for which patents and other intellectual property protection cannot be obtained. Furthermore, much of the know-how for these projects is developed by a small group and shared by a limited number of people; should any of these key employees leave the Group, the Group could lose substantial know-how.

From time to time, the Group may discover or believe that third parties are infringing or otherwise violating its intellectual property rights. To protect its intellectual property rights, the Group may become involved in litigation, which could result in substantial expenses, divert the attention of management, cause significant delays to the development or launch of products, materially disrupt the conduct of its business or adversely affect revenues, financial condition and results of operations. Any actual or alleged infringement of the Group's intellectual property rights by third parties may reduce or eliminate any competitive advantage such intellectual property rights provide and could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

23. *The Group's products incorporate software and other technology under licence from third parties, and the Group's business could be materially and adversely affected if this technology were no longer available to it on commercially reasonable terms or at all.*

The Group integrates third-party software and other technology into its operating system, network management and control platforms and other products and solutions. As network operators adopt SDN and NFV applications, the Group believes that it will be increasingly required to work with third-party technology providers. As a result, the Group may be required to licence certain software or technology from third parties, including competitors. Licences for software or other technology may not be available or may not continue to be available to the Group on commercially reasonable terms or at all. Third-party licensors may insist on unreasonable financial, maintenance or other terms in connection with the Group's use of such technology. The Group's failure to comply with the terms of any licence may result in the Group's inability to continue to use such licence, which may result in significant costs, harm the Group's market opportunities and require it to obtain or develop a substitute technology.

The Group's products and solutions utilise elements of open source or publicly available software. As network operators seek to enhance programmability of networks, the Group expects that it and other networking product and solution vendors will increasingly contribute to and use technology or open source software developed by standards-settings bodies or other industry forums that seek to promote the integration of network layers and functions. The terms of such licences could be construed in a manner that could impose unanticipated conditions or restrictions on the Group's ability to commercialise its products. Furthermore, the Group may have to provide its own warranty on the products or solutions incorporating open source software for which they have no ability to obtain recourse from the developer. Other limitations involving open source software may include the inability to fully incorporate it into the product or solution, a requirement to make the source

code available to others, or other similar restrictions on use. This increases the Group's risks associated with the use of such software and may require it to seek licences from third parties, to re-engineer products or to discontinue the sale of such solutions. For example, in June 2018, Oracle announced that public updates for Oracle Java SE 8 (an open source software used by the Group) released after January 2019 will not be available for business, commercial or production use without a commercial licence. As a result, the Group will either have to purchase a licence to continue to utilise this software or migrate to another open source platform, which could result in material expense or disruptions to the Group's operations. Difficulty obtaining and maintaining technology licences with third parties may disrupt development of the Group's products, increase its costs and have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

24. *Data security breaches and cyber-attacks could compromise the Group's intellectual property or other sensitive information and cause significant damage to the Group's business and reputation.*

In the ordinary course of business, the Group transports certain information that is confidential, proprietary or otherwise sensitive in nature. This information includes intellectual property, financial information and confidential business information relating to the Group, its customers, suppliers and other business partners. The Group also produces networking equipment solutions and software used by network operators to ensure security and reliability in their management and transmission of data. Customers, particularly those in regulated industries or that are government agencies, are increasingly focused on the security features of the Group's products and solutions, and maintaining the security of sensitive information held by the Group and its customers is critical to the Group's business and reputation.

Companies in the technology industry have been increasingly subject to a wide variety of security incidents, cyber-attacks and other attempts to gain unauthorised access to networks or sensitive information. The Group's network systems and storage applications, and those systems and storage applications maintained by third-party providers, may be subject to unauthorised access by hackers or breached due to operator error, malfeasance or other system disruptions. The Group also sells and/or licences network security solutions to its customers. Should any of these solutions fail to prevent a security incident or cyberattack against which they are meant to protect, the network solutions the Group sells to its customers may be exposed to similar risks. In some cases, it is difficult to anticipate or to detect immediately such incidents and the damage caused thereby. Any actual, possible or perceived breaches, defects, errors or vulnerabilities may cause interruptions to the availability of the Group's products and result in lost or delayed market acceptance and sales.

The Group could also face claims for product liability, tort, breach of warranty or other damages caused by faulty installation of, or defects in, its products. In the event of such claims, provisions in contracts relating to warranty disclaimers and liability limitations may be unenforceable. Defending a lawsuit, regardless of its merit, could be costly and divert management attention. Defects, errors and vulnerabilities may also lead to the loss of existing or potential customers, diversion of development resources, or increasing services, warranty, product replacement and product liability insurance costs. The Group's insurance coverage may be inadequate or future coverage may be unavailable on acceptable terms or at all. In addition, any actual, possible or perceived breaches, defects, errors or vulnerabilities could have an irreparable effect on the reputation of the Group and its competitive position.

While the Group continually works to safeguard the Group's products and internal network systems to mitigate these potential risks, there is no assurance that such actions will be sufficient to prevent breaches, defects, errors or vulnerabilities, any of which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

25. *The Group is exposed to the credit risk of its customers and resellers and may have difficulty collecting receivables, which could materially and adversely affect its business and results of operations.*

In the course of its sales to customers and its partners, the Group may have difficulty collecting receivables, and its business and results of operations could be exposed to risks associated with uncollectible accounts. Lack of liquidity in the capital markets, macroeconomic weakness and market volatility may increase the Group's exposure to these credit risks and the Group's attempts to monitor customer payment capability and to take appropriate measures to protect itself may not be sufficient. Accordingly, the Group may have to write down or write off accounts receivable. For example, in 2016 one of the Group's ten largest end-customers (by revenue) ceased its network development resulting in a $2.7 million write off. Such write-downs or write-offs, if large, could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

The Group has a policy to insure its accounts receivable with the Israeli Credit Insurance Company ("**ICIC**"), a leading credit insurer in Israel. The Group's insurance with the ICIC covers non-payment by customers due to financial and political risks and is assignable. The Group's outstanding accounts receivable can vary through the year and depends on the mix of sales per customer. As of 30 June 2018, the Group had $87.4 million of outstanding accounts receivable, of which 40% was insured with ICIC, 14% was covered by a bank letter of credit and 29% was a receivable from the Government of Israel. The remaining outstanding accounts receivable were not insured. For these uninsured receivables, the Group maintains an internal policy for evaluating customer credit exposure and has a defined process for approving any such exposure, including analysing the customer's financial stability, payment history and country risk.

26. *Changes in applicable tax rulings and taxation requirements could materially and adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.*

The Group is subject to income tax in Israel, the United Kingdom, the United States, India and other jurisdictions in which it does business. The Group determines the amount of taxes it is required to pay based on its interpretation of the applicable laws and regulations in the jurisdictions in which it operates and its application of general transfer pricing principles to intercompany transactions. Many countries' tax laws and international treaties impose taxation upon entities that conduct a trade or business or operate through a permanent establishment in those countries. However, these applicable laws and treaties are subject to interpretation. The tax authorities in these countries may contend that a greater portion of the income of the Group should be subject to income or other tax in their respective jurisdictions. This may result in an increase to the Group's effective tax rate and adversely affect the Group's results of operations. Further, there is a risk that a country may consider implementing new laws related to the taxation of the industry in which the Group operates or to broadly interpret its existing laws, for example by construing permanent establishment in a country based solely on a digital presence within the country (without the company having any physical presence). If any taxing authority takes such a view, there is a risk that the Group would be subject to additional taxes and potentially double taxation, which could materially adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

Sales tax

Sales of the Group's products are also subject to tax in a number of jurisdictions. Such taxes include value-added tax ("**VAT**"), corporate tax, goods and services tax ("**GST**") and excise duties. In certain jurisdictions, particularly those in emerging markets, there is limited guidance or interpretation of the laws related to these taxes, many of which have not been in force for a significant period. As a result, implementing regulations are often unclear or non-existent. While the Group makes a portion of its sales through third-party partners who undertake to comply with any local taxing requirements, it also makes certain sales itself. Furthermore, local taxing authorities could seek to impose penalties notwithstanding the Group's agreement with local partners. If the Group or any of the third parties on which the Group relies do not comply with any local taxing requirements as determined by the local taxing authorities, the Group may be subject to unexpected taxes, which could materially adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

Tax audits

The Group's tax position for all taxes, including matters related to its corporate structure and intercompany transactions, is subject to review and audit by taxing authorities in accordance with the relevant local statute of limitations, who may impose significant fines, penalties and interest charges. If the tax authorities dispute any of the Group's tax positions, the Group could be subject to substantial tax liabilities that could materially adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

Changes in law

Changes in tax laws or their interpretations could decrease the amount of cash the Group receives, the value of any tax loss carry forwards and tax credits disclosed in its financial statements and the amount of the Group's net cash flow, and have a material adverse effect on its business, results of operations, financial condition, cash flows and prospects. Furthermore, owing to and following the changes in the international tax regulations and international initiatives, such as the OECD Base Erosion and Profit Shifting Action Plan ("**OECD BEPS**"), tax authorities are likely to be more focused on areas such as transfer pricing and, as a result of the increasing exchange of information between tax authorities, more challenges may arise. Most jurisdictions in which the Group operates have transfer pricing regulations that require transactions involving associated companies to be

made on arm's length terms. It is the Group's policy that arrangements between Group companies are carried out on an arm's length basis. However, if the tax authorities in any relevant jurisdiction do not regard such arrangements as being made on an arm's length basis or being properly documented and successfully challenge those arrangements, the amount of tax payable, in respect of both current and previous years, may increase materially and penalties or interest may be payable. The same applies in case of changes in the transfer pricing system, which may result in challenges of the past or new set-up. Further, in some jurisdictions in which the Group operates the tax authorities may undertake lengthy reviews of transfer pricing arrangements, with the result that the Group's tax positions in those jurisdictions remains open and subject to review for several years. Any challenge to the Group's transfer pricing arrangements or changes in the transfer pricing system could materially adversely affect the Group's business, results of operations, financial condition, cash flows and prospects.

27. ***The Group is subject to extensive laws and regulation, which could increase its costs and have a materially adverse impact on its business, results of operations, cash flows, financial condition and prospects.***

The Group and the industry in which it operates are subject to a variety of laws and regulations which may have a direct or indirect effect on the Group's business, including those relating to taxes and levies, security and data privacy amongst others, each of which vary significantly from jurisdiction to jurisdiction and are sometimes conflicting.

In addition, changes in laws and regulations, enforcement that is more stringent or alternative interpretation of existing laws and regulations in jurisdictions in which the Group currently operates can change the legal and regulatory environment, making compliance with all applicable laws and regulations more challenging and expensive given the Group's global footprint. Violations of such laws and regulations by the Group, its employees, its partners or suppliers could result in civil and criminal fines, penalties and sanctions against the Group, its officers or its employees, as well as prohibitions on the conduct of its business and on its ability to offer its products in one or more countries, which could have a material adverse effect on its business, results of operations, financial condition, cash flows and prospects.

Risks relating to the Company's domicile and operations in Israel

1. ***Conditions in Israel may materially and adversely affect the Group's business.***

The Company and the main operating entity of the Group, ECI Telecom Ltd., are each organised under Israeli law, and the Group's largest office and largest number of employees are located in the State of Israel. Accordingly, political, economic and military conditions in Israel may directly affect the Group's business. Since Israel was established in 1948, a number of armed conflicts have occurred between Israel and its neighbouring countries. In recent years, these have included hostilities between Israel and Hezbollah in Lebanon and Hamas in the Gaza Strip, both of which resulted in rockets being fired into Israel, causing casualties and disruption of economic activities. Popular uprisings in various countries in the Middle East and North Africa are affecting the political stability of those countries and have led to a decline in the regional security situation. Such instability may also lead to deterioration in the political and trade relationships that exist between Israel and these countries. Any armed conflicts, terrorist activities or political instability involving Palestinian entities or other countries in the region could adversely affect the Group's business, results of operations, financial condition, cash flows and prospects. Although the Israeli Government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, the Group cannot assure prospective investors that this coverage will be maintained or will be adequate in the event the Group submits a claim.

A number of countries, principally in the Middle East, still restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continue or increase. In addition, there have been increased efforts by activists to cause companies and consumers to boycott Israeli goods based on Israeli Government policies. Such actions, particularly if they become more widespread, may adversely impact the Group's ability to sell its products. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or significant downturn in the economic or financial condition of Israel, could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

Similarly, Israeli companies are restricted from conducting business with entities from several countries. For example, in 2008 the Israeli legislature adopted a law forbidding any investments in entities that transact

business with Iran. Moreover, individuals in certain geographical regions may refrain from doing business with Israel and Israeli companies as a result of their objection to Israeli foreign or domestic policies. The Group may also be targeted by cyber terrorists because of its large presence in Israel.

The Group's operations could also be disrupted by the absence for significant periods of one or more of its executive officers, key employees or a significant number of other employees because of military service. Some of the Group's employees in Israel are obliged to perform military reserve duty, which generally accumulates over a period of three years from several days to up to a maximum of 84 days (and up to 108 days, in special circumstances specified under applicable law) and, in certain emergency circumstances, employees may be called to immediate and unlimited active duty. In response to increases in terrorist activity, there have been periods of significant call-ups of military reservists and it is possible that there will be similar large-scale military reserve duty call-ups in the future.

Any of these circumstances could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

2. *The rights and responsibilities of the Shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under UK law.*

As the Company is organised under the laws of the State of Israel, the rights and responsibilities of Shareholders are governed by the Company's articles of association (the "**Articles**") and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in companies incorporated in England and Wales or the United States.

In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations toward the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at a general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorised share capital, mergers and interested party transactions requiring shareholder approval. In addition, a Controlling Shareholder, a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or to appoint or prevent the appointment of a director or executive officer in the company or has another power with respect to the company, each has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Some of the parameters and implications of the provisions that govern shareholder behaviour have not been clearly determined. These provisions may be interpreted to impose additional obligations and liabilities on Shareholders that are not typically imposed on shareholders of companies incorporated in England or the United States. In addition, Israeli corporate law has undergone extensive revision in recent years, and there is little case law available to help analyse and understand the implications of the new provisions that govern shareholder behaviour.

The power of the Company to issue and allot Shares or other securities is exercisable by the Board at such times and on such terms and conditions as the Board may determine, subject to the Articles and the limit on the Company's authorised share capital, which may be amended by a resolution of the Shareholders. Shareholders of a public company do not have pre-emption rights under the Israeli Companies Law over further issues of shares of the Company, except to the extent that such right is expressly included in the Articles. The Articles contain pre-emption rights in favour of Shareholders in respect of the allotment or issue of securities, which are, or are to be, paid up in cash. Any additional share issue may have a dilutive effect on Shareholders, particularly if they are unable or choose not to subscribe by taking advantage of rights of pre-emption that may be available.

3. *Provisions of Israeli law and the Articles may delay, prevent, deter or impede a merger with or an acquisition of the Company (or the sale or issuance of a significant portion of the shares) which could prevent a change of control, even when the terms of such transaction would be favourable to it and the Shareholders.*

Israeli corporate law regulates mergers, requires tender offers for the acquisition of shares above specified thresholds, requires special approvals for transactions involving directors, officers or significant shareholders and regulates other matters that may be relevant to these types of transactions. Furthermore, Israeli tax considerations may make potential transactions unappealing to the Company or to Shareholders whose country of residence does not have a tax treaty with Israel exempting such shareholders from Israeli tax. These provisions of Israeli law could delay, prevent, deter or impede a merger with, or an acquisition of, the Company (or the sale or issuance of a significant portion of its Shares), which could prevent a change of control, even

when the terms of such transactions would be favourable to it and Shareholders, and therefore potentially depress the price of the Company's Shares.

4. ***It may be difficult to enforce a foreign law judgment against the Company or its officers and the Directors, to assert foreign securities laws claims in Israel or serve process on certain of the Company's officers and Directors.***

The Company is organised under the laws of the State of Israel, and certain of the Directors, senior management team and directly-owned assets are based in Israel. Therefore, it may be difficult for an investor, or any other person or entity, to collect a judgment obtained in the United Kingdom, the United States or any other jurisdiction outside the State of Israel against the Company or any of these persons, or to effect service of process upon these persons. Furthermore, it may be difficult to assert English law or US securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of foreign securities laws on the grounds that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court were to agree to hear such a claim, it may determine that Israeli law rather than English or United States securities law is applicable to the claim. If the court were to find foreign law applicable, the relevant party must prove as fact the content of the applicable law, which can be a time consuming and costly process. Further, Israeli law would also govern certain matters of procedure. There is little binding case law in Israel addressing the matters described above.

In addition, an Israeli court would not enforce a foreign judgment if it were given in a state whose laws do not provide for the enforcement of judgments of Israeli courts (subject to exceptional cases) or were rendered by a court not competent to render it according to the rules of private international law prevailing in Israel, or if its enforcement would be likely to prejudice the sovereignty or security of the State of Israel or if the judgement were obtained by fraud. In addition, an Israeli court may not enforce a foreign judgment in the absence of due process, or if a valid judgment exists relating to the same matter between the same parties which is inconsistent with the foreign judgment, or if an action between the same parties in the same matter was pending in any Israeli court or tribunal at the time at which the lawsuit was instituted in the foreign court.

5. ***The Group may benefit from Israeli corporate tax benefits that require the Group to meet various conditions, and may be terminated or reduced in the future, which could increase the amount of corporate tax payable in the future in Israel.***

The Group believes that certain of its facilities in Israel may qualify as a "Preferred Enterprise" or "Preferred Technology Enterprise" under the Israeli Law for the Encouragement of Capital Investments, 1959 (referred to as the "**Investment Law**"), as a result of which it may benefit in the future from Israeli corporate tax benefits. In order to be eligible for the tax benefits for "Preferred Enterprises" or "Preferred Technology Enterprises", the enterprise must meet certain conditions stipulated in the Investment Law and its regulations. For example, the majority of a Preferred Enterprise's activities must be manufacturing and the enterprise must meet certain additional conditions, such as exporting at least 25% of the enterprise's annual sales turnover. Similarly, a Preferred Technology Enterprise must meet certain conditions such as minimum research and development expenditures or a minimum number of research and development employees and revenue growth. If the enterprise does not meet these conditions, the tax benefits could be cancelled and the amounts of the benefits received could be required to be refunded with interest and penalties. To the extent that the Group is not able to utilise in the future carry-forward losses in Israel (in the amount of $1,525.0 million as at 31 December 2017), its facilities in Israel may be entitled to benefit from reduced tax rates under the Investment Law. However, these tax benefits may be reduced, cancelled or discontinued, in the future, in which case, the Group's Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate for Israeli companies is currently 23% of taxable income (effective as of 1 January 2018, reduced from 24% for the 2017 tax year and 25% for the 2016 tax year). Additionally, if the Group increases its activities outside Israel through acquisitions, for example, such expanded activities might not be eligible for inclusion in future Israeli tax benefit programmes.

6. ***The Group may become subject to claims for remuneration or royalties for assigned service inventions rights by current and/or former employees involved in the development of intellectual property, which could result in litigation and materially and adversely affect the Group's business.***

A significant portion of the Group's intellectual property has been developed by its employees in the course of their employment for it. Under the Israeli Patent Law, 5727-1967 (the "**Israeli Patent Law**"), inventions conceived by an employee during the scope of and as a result of or arising from his or her employment with a company are regarded as "service inventions" and are owned by the employer, absent a specific agreement

between the employee and employer giving the employee service invention rights. The Israeli Patent Law also provides that, absent an agreement between an employer and an employee that prescribes whether, to what extent, and on what conditions the employee is entitled to remuneration for his or her service inventions, the Israeli Compensation and Royalties Committee, a body constituted under the Israeli Patent Law, shall determine whether and to what extent the employee is entitled to remuneration for his or her inventions. Although the Group's current and former Israeli employees have agreed to assign to it service invention rights and have agreed to waive their economic rights with respect to service inventions, claims could be made by such current and/or former employees involved in the development of intellectual property, as long as they did not provide such a waiver in their employment agreement or in any other documented way, demanding remuneration in consideration for assigned inventions. As a consequence of such claims, the Group could be required to pay additional remuneration or royalties to its current and/or former employees, or be forced to litigate such claims, any of which could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

Part 2
PRESENTATION OF FINANCIAL AND OTHER INFORMATION

1. GENERAL

Investors should only rely on the information in any final Prospectus published by the Company. No person has been authorised to give any information or to make any representations in connection with the Group, other than those contained in this Registration Document and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of the Company or its Directors or shareholders. The delivery of this Registration Document does not create any implication that there has been no change in the business or affairs of the Group since the date of this Registration Document or that the information contained herein is correct as of any time subsequent to its date.

In accordance with Prospectus Rule 2.2.5, were the Company in due course to issue a Prospectus, such Prospectus would contain details of any material change or recent development relating to the Group since the date hereof.

The contents of this Registration Document are not to be construed as legal, business or tax advice. The reader should consult his or her own lawyer, independent adviser or tax adviser for legal, financial or tax advice. The reader must rely on their own examination, analysis and enquiry of the Company, including the merits and risks involved.

This Registration Document is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Company, its Directors or shareholders or any of their representatives that any recipient of this Registration Document should subscribe for or purchase the Shares.

Prior to making any decision as to whether to subscribe for or purchase the Shares, prospective investors should read any Prospectus published by the Company.

None of the Company, its Directors or shareholders nor any of their representatives is making any representation regarding the legality of any investment in the Company or its securities.

2. PRESENTATION OF FINANCIAL INFORMATION

The financial information in this Registration Document has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**"). The significant IFRS accounting policies applied in the financial information of the Group are applied consistently in the financial information in this Registration Document.

3. FINANCIAL INFORMATION

The Company's financial year runs from 1 January to 31 December. The consolidated historical financial information for the Group included in Part 9: "*Historical Financial Information*" (other than consolidated historical financial information for the six months ended 30 June 2017, which is unaudited) is covered by the accountant's report incorporated by reference into this Registration Document. The accountant's report was prepared in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom.

None of the financial information used in this Registration Document has been audited in accordance with auditing standards generally accepted in the United States of America ("**U.S. GAAS**") or auditing standards of the Public Company Accounting Oversight Board (United States) ("**PCAOB**"). In addition, there could be differences between the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom and U.S. GAAS or the auditing standards of the PCAOB. Potential investors should consult their own professional advisers to gain an understanding of the consolidated historical financial information for the Group included in Part 9: "*Historical Financial Information*" of this Registration Document and the implications of differences between the auditing standards noted herein.

4. NON-IFRS FINANCIAL INFORMATION

This Registration Document contains certain financial measures that are not defined or recognised under IFRS, including EBITDA, EBITDA margin and gross margin as defined below.

These non-IFRS financial measures and other metrics are unaudited and are not measures recognised under IFRS or any other internationally accepted accounting principles, and prospective investors should not consider

such measures as an alternative to the IFRS measures included in the Group's historical financial information. The non-IFRS financial measures and other metrics, each as defined herein, may not be comparable to similarly titled measures presented by other companies as there are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. Even though the non-IFRS financial measures and other metrics are used by management to assess the Group's financial results and these types of measures are commonly used by investors, they have important limitations as analytical tools, and investors should not consider them in isolation or as substitutes for analysis of the Group's position or results as reported under IFRS. The Group believes that each of these measures provides useful information with respect to the performance of the Group's business and operations.

Unaudited financial measures and other metrics in relation to the Group have been derived from: (i) management accounts for the relevant accounting periods presented; (ii) internal financial reporting systems supporting the preparation of the Group's historical financial information contained in Part 9: "*Historical Financial Information*"; and (iii) the Group's other business operating systems and records. Management accounts are prepared using information derived from accounting records used in the preparation of the Group's historical financial information contained in Part 9: "*Historical Financial Information*" but may also include certain other assumptions and analyses.

4.1 EBITDA AND EBITDA MARGIN

EBITDA is defined as the Group's net loss before interest, tax, depreciation and amortisation. EBITDA margin is defined as the Group's EBITDA divided by revenues, expressed as a percentage. The Group believes that EBITDA and EBITDA margin are key metrics for the Group as it allows the Group to evaluate its underlying operating performance by excluding certain items, including interest costs, that the Group does not consider indicative of its core operating performance. A reconciliation of EBITDA and EBITDA margin to loss for the period is set out in the table below:

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
		Unaudited			
	(in $ millions, unless otherwise indicated)				
Revenues	**197.7**	**159.0**	**367.2**	**326.0**	**335.1**
Loss for the period	**(18.8)**	**(34.3)**	**(41.8)**	**(31.3)**	**(27.3)**
Taxes on income	2.0	1.8	2.8	3.3	3.3
Financing expenses, net	27.9	27.5	52.2	40.7	33.0
Depreciation and amortisation	18.8	18.1	37.1	37.9	44.4
EBITDA	**29.9**	**13.0**	**50.3**	**50.6**	**53.3**
EBITDA margin (%)	15.1%	8.2%	13.7%	15.5%	15.9%

4.2 GROSS MARGIN

Gross margin is defined as the Group's gross profit divided by revenues, expressed as a percentage. The Group believes that gross margin is a key metric for the Group as it allows it to evaluate overall profitability on its sales. A reconciliation of gross margin to the Group's gross profit and revenues is set out in the table below:

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
		Unaudited			
	(in $ millions, unless otherwise indicated)				
Revenues	**197.7**	**159.0**	**367.2**	**326.0**	**335.1**
Cost of sales	130.8	107.0	237.4	192.1	209.5
Gross profit	**66.9**	**52.0**	**129.8**	**133.9**	**125.6**
Gross margin (%)	33.8%	32.7%	35.4%	41.1%	37.5%

5. CURRENCY PRESENTATION

The Company prepares its financial statements in U.S. dollars. Unless otherwise indicated, all references to "U.S. dollars", "USD" or "$" are to the lawful currency of the United States. All references in this Registration Document to "sterling", "pounds sterling", "GBP", "£", or "pence" are to the lawful currency of the United Kingdom. All references in this Registration Document to "New Israeli Shekel" or "NIS" are to the lawful

currency of the State of Israel. All references to "Euro" or "€" are to the lawful currency of the European Union.

The following tables set out, for the periods set forth below, the high, low, average and period-end Bloomberg Composite Rate expressed as U.S. dollar per £1.00 and U.S. dollar per NIS1.00. The Bloomberg Composite Rate is a "best market" calculation, in which, at any point in time, the composite bid rate is equal to the highest bid rate of all currently active, contributed, bank indications, and the composite ask rate is equal to the lowest ask rate offered by these same bank indications. The Bloomberg Composite Rate is a mid-value rate between the composite bid rate and the composite ask rate. The rates may differ from the actual rates used in the preparation of the combined historical financial information and other financial information appearing in this Registration Document.

The average rate for a year, a month, or for any shorter period, means the average of the final daily Bloomberg Composite Rates during that year, month, or shorter period, as the case may be.

Period (Year/Month)	**Period end**	**Average**	**High**	**Low**
		(GBP per $1.00)		
2015	0.6787	0.6545	0.6865	0.6279
2016	0.8106	0.7407	0.8312	0.6660
2017	0.7395	0.7767	0.8337	0.7344
January 2018	0.7050	0.7242	0.7511	0.6972
February 2018	0.7253	0.7161	0.7264	0.7004
March 2018	0.7125	0.7156	0.7292	0.7020
April 2018	0.7264	0.7105	0.7291	0.6956
May 2018	0.7523	0.7427	0.7573	0.7261
June 2018	0.7579	0.7526	0.7662	0.7423
July 2018	0.7618	0.7598	0.7717	0.7484
August 2018	0.7717	0.7767	0.7898	0.7608
September 2018 (through 19 September 2018)	0.7604	0.7685	0.7779	0.7600

Source: Bloomberg

Period (Year/Month)	**Period end**	**Average**	**High**	**Low**
		(NIS per $1.00)		
2015	3.8920	3.8846	4.0688	3.7434
2016	3.8656	3.8385	3.9897	3.6981
2017	3.4710	3.5978	3.8793	3.3870
January 2018	3.4166	3.4213	3.5400	3.3795
February 2018	3.4752	3.4971	3.5531	3.4123
March 2018	3.5010	3.4736	3.5422	3.4148
April 2018	3.5976	3.5368	3.6048	3.4914
May 2018	3.5665	3.5878	3.6343	3.5433
June 2018	3.656	3.6016	3.667	3.5449
July 2018	3.6715	3.6433	3.6938	3.6042
August 2018	3.6117	3.6709	3.7259	3.5956
September 2018 (through 19 September 2018)	3.5851	3.5874	3.6190	3.5709

Source: Bloomberg

6. ROUNDINGS

Certain data in this Registration Document, including financial, statistical, and operating information has been rounded. As a result of the rounding, the totals of data presented in this Registration Document may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add up to 100%.

7. MARKET, ECONOMIC AND INDUSTRY DATA

Unless the source is otherwise stated, the market, economic and industry data in this Registration Document constitute the Directors' estimates, using underlying data from independent third parties. The Company obtained market data and certain industry forecasts used in this Registration Document from internal surveys,

reports and studies, where appropriate, as well as market research, publicly available information and industry publications, including the Ovum Optical Networks Forecasts ("**Ovum**").

The Company confirms that all such data contained in this Registration Document has been accurately reproduced and, so far as the Company is aware and able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading.

8. SERVICE OF PROCESS AND ENFORCEMENT OF CIVIL LIABILITIES

The Company is organised under the laws of the State of Israel, and four of the Directors, the majority of its senior management team and its directly-owned assets are based in Israel. Therefore, it may be difficult for an investor, or any other person or entity, to collect a judgment obtained in the United Kingdom, United States or another jurisdiction against the Company or any of these persons in a court in the applicable foreign jurisdiction or an Israeli court, or to effect service of process upon these persons in the applicable foreign jurisdiction.

Furthermore, it may be difficult to assert English law or United States securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of foreign securities laws on the grounds that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court were to agree to hear such a claim, it may determine that Israeli law rather than English or US securities law is applicable to the claim. If the court were to find foreign law applicable, the relevant party must prove as fact the content of the applicable law, which can be a time consuming and costly process. Israeli law would also govern certain matters of procedure. There is little binding case law in Israel addressing the matters described above. For more information, see "*—Risks relating to the Company's domicile and operations in Israel—It may be difficult to enforce a foreign law judgment against the Company or its officers and the directors, to assert foreign securities laws claims in Israel or serve process on certain of the Company's officers and directors*."

9. NO INCORPORATION OF WEBSITE INFORMATION

The contents of the Company's website do not form part of this Registration Document.

10. DEFINITIONS AND GLOSSARY

Certain terms used in this Registration Document, including all capitalised terms and certain technical and other items, are defined and explained in Part 11: "*Definitions*" and Part 12: "*Glossary*".

11. INFORMATION NOT CONTAINED IN THIS REGISTRATION DOCUMENT

No person has been authorised to give any information or make any representation other than those contained in this Registration Document and, if given or made, such information or representation must not be relied upon as having been so authorised. Neither the delivery of this Registration Document nor any subscription or sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Company since the date of this Registration Document or that the information in this Registration Document is correct as of any time subsequent to the date hereof.

12. INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This Registration Document includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Group's control and all of which are based on the Directors' current beliefs and expectations about future events. These forward-looking statements can be identified by the use of terminology such as, "aims", "anticipates", "assumes", "believes", "budgets", "could", "contemplates", "continues", "estimates", "expects", "intends", "may", "plans", "predicts", "projects", "schedules", "seeks", "shall", "should", "targets", "would", "will" or, in each case, their negative or other variations or comparable terminology. They appear in a number of places throughout this Registration Document and include statements regarding the intentions, beliefs or current expectations of the Directors or the Group concerning, among other things, the results of operations, financial condition, prospects, growth, strategies and the industry in which it operates. In particular, the statements under the headings, "*Risk Factors*", "*Business*" and "*Operating and Financial Review*" regarding the Company's strategy and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Registration Document regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will

be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Such risks, uncertainties and other important factors include, but are not limited to, those listed under the heading "*Risk Factors*", including changes in economic conditions, the Group's competitive environment, the Group's ability to execute its strategies, including developing and launching new products and solutions, as well as other factors within and beyond the Group's control that may affect its planned strategies and operational initiatives including actions taken by counterparties.

The following include some but not all of the factors that could cause actual results or events to differ materially from the anticipated results or events:

- the market for 5G networking products and solutions, including SDN and NFV applications not evolving as anticipated;
- significant and unpredictable fluctuations in the Group's revenue, gross margin and results of operations, including the loss of any large customers who account for a significant portion of the Group's revenue;
- increases in competition or changes to the competitive landscape;
- fluctuations in currency exchange rates and other additional risks as a result of the Group's global operations;
- unfavourable macroeconomic changes or market conditions that result in reduction in spending by the Group's customers;
- changes in customer's networking or procurement strategies or increased sales cycles and protracted negotiations;
- changes to the Group's electronics manufacturing service providers or lack of supply for key components;
- inability to benefit from partnerships to sell the Group's products and solution; and
- changes in government regulation affecting the communications industry or changes to applicable laws and regulations or tax rulings applicable to the Group.

By their nature, forward-looking statements are based upon a number of estimates and assumptions that, whilst considered reasonable by the Company are inherently subject to significant business, economic and competitive uncertainties and contingencies. Known and unknown factors could cause actual results to differ materially from those indicated, expressed or implied in such forward-looking statements.

Investors are cautioned that forward-looking statements are not guarantees of future performance.

The forward-looking statements contained in this Registration Document speak only as at the date of this Registration Document. Subject to the requirements of the Prospectus Rules, the DTRs, the Listing Rules, the Market Abuse Regulation or applicable law, the Directors, the Company and the Group explicitly disclaim any intention or obligation or undertaking to publicly release the result of any revisions to any forward-looking statements made in this Registration Document that may occur due to any change in the Directors', the Company's or the Group's expectations or to reflect events or circumstances after the date of this Registration Document.

Part 3
DIRECTORS, SECRETARY, REGISTERED AND HEAD OFFICE AND ADVISERS

Directors	Franco Bernabè (Independent Chairman) Darryl Edwards (President and Chief Executive Officer) Giora Bitan (Executive Vice President and Chief Financial Officer) Andrew MacLeod (Senior Independent Non-Executive Director) Stanley B. Stern (Non-Executive Director) Dafna Sharir (Independent Non-Executive Director) Tido van Wieringen (Independent Non-Executive Director)
Company Secretary	Arnie Taragin
Registered and head office of the Company	30 Hasivim Street Petach-Tikva 4959388 Israel
English and U.S. legal advisers to the Company	Latham & Watkins (London) LLP 99 Bishopsgate London EC2M 3XF United Kingdom
Israeli legal advisers to the Company	Fischer Behar Chen Well Orion & Co 3 Daniel Frisch Street Tel Aviv 6473104 Israel
Auditor and reporting accountant	Somekh Chaikin Certified Public Accountants (Isr.) A member firm of KPMG International 17 Ha'arba'a Street Millennium Tower Tel Aviv 6812508 Israel

Part 4
INDUSTRY OVERVIEW

1. THE GLOBAL TELECOMMUNICATIONS MARKET

The global telecommunication market is undergoing a fundamental transformation spurred by recent advances in network-connected technologies and an increase in overall demand for network data. Data traffic has been growing rapidly and investments in the networks that support this have been required in order to keep pace with growth. The key trend that has driven the industry's growth is the increasing prevalence of network-connected devices. In the coming years, the Directors believe that this trend will accelerate, driven by IoT applications, innovative changes in the mobility sector (including, for example, autonomous vehicles), the increased use of cloud applications and data centres, artificial intelligence ("**AI**"), and the rise of virtual reality ("**VR**") and augmented reality ("**AR**") technologies—all of which are expected to drive an increasing demand for data and faster networks.

These technological advances and new applications are testing the limits of current data transport networks and IT systems, requiring Service Providers, Utilities and Governments, and Defence and Security customers to invest in new network infrastructure and technologies. These providers are seeking to create more efficient infrastructure in order to mitigate the significant investments needed to support these changes, including moving to products and solutions that support 5G, which is expected to be rolled out to meet the increasing demand for data and faster networks. 5G is also expected to accelerate the adoption of NFV and SDN applications and to allow new levels of connectivity (such as IoT and autonomous vehicles).

Furthermore, in this new era of data usage, data and network security is becoming a key concern that might require additional investments in infrastructure.

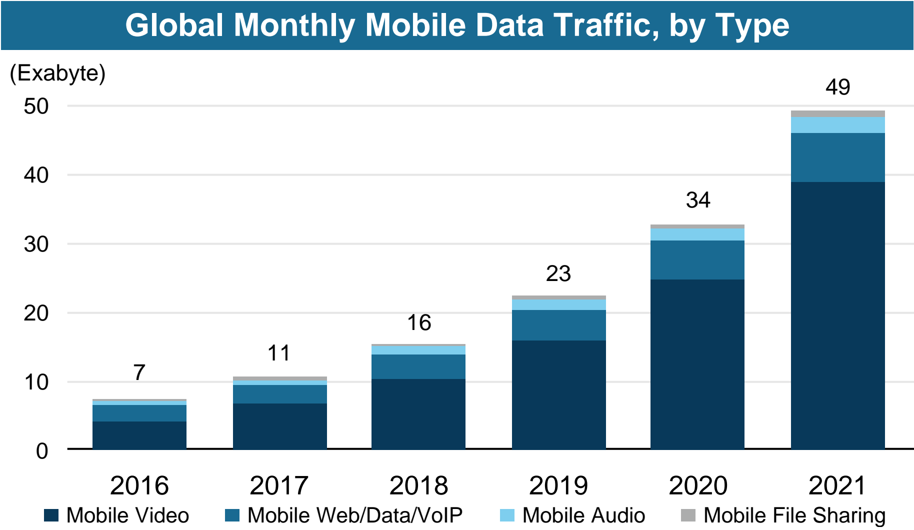
Key Industry Drivers

A primary driver of network traffic growth is increasing smartphone usage, with global monthly mobile traffic data expected to grow from 977 megabytes of mobile traffic per month in 2016 to 5.7 gigabytes of mobile traffic per month by 2021, representing a CAGR of 42% (Source: Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2016-2021). The Directors believe Service Providers will need to maintain a certain level of infrastructure capacity to keep up with this growth and meet market demand.

In addition, other personal devices are changing the data usage landscape. Tablets, wearable devices and other portable, personal electronics are becoming increasingly popular and users expect a level of service that covers these devices everywhere and at any time. Hence, for both businesses and consumers, on-demand service and increased data capacity is becoming a necessity.

Due to the worldwide presence of smartphones and tablets, video traffic in both mobile and fixed networks is expected to continue growing rapidly. Data demand driven by content provided directly from the provider to the viewer via the internet, also known as over-the-top ("**OTT**") services, has substantially increased as both the quantity and the quality of the content has increased. In 2017, global video traffic amounted to 56% of monthly mobile traffic and by 2023, video traffic is estimated to increase to 73% of monthly mobile traffic (Source: Ericsson, Ericsson Mobility Report, 2018). Specifically, this trend is driven by an increase in overall viewing time, embedded videos in social media networks and the improved quality of HD videos from 480p and 720p to full HD (1080p) and 360 degrees videos.

The graph below shows global monthly mobile data traffic (by exabyte by type from 2016 to 2021. Information for 2016 is actual and information for 2017 to 2021 is forecasted.

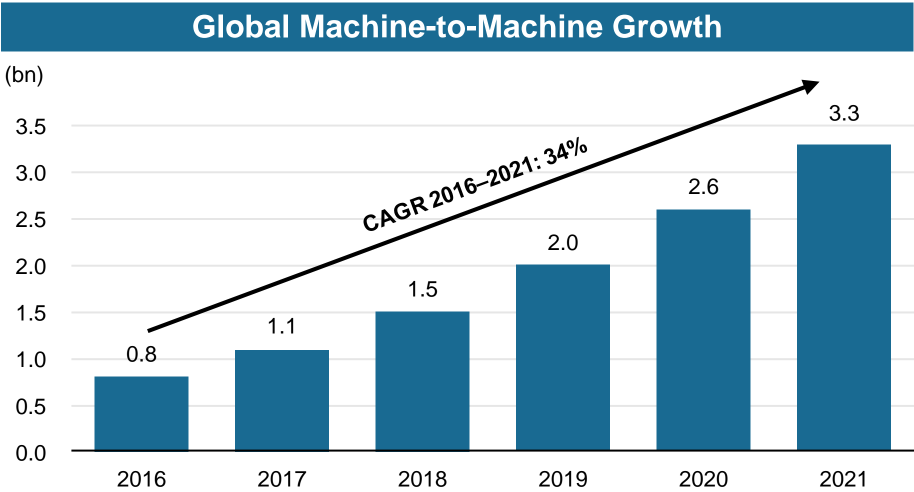


Source: Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2016–2021.

Similarly, ultra-high definition television has put pressure on Service Providers. As OTT platforms such as Netflix, Hulu, Amazon and others produce more content, they have also improved its quality (from 1080p to 4K or more). These developments, along with rapidly accelerating online streaming habits, are responsible for an increasingly significant proportion of overall data consumption.

The emergence of the IoT, which uses a large amount of network bandwidth due to the necessity of machine-to-machine (“**M2M**”) related data traffic is also expected to increase data traffic. IoT’s main drivers—the connected car (which relies largely on smart technologies for future autonomous capabilities), smart homes and cities, connected health, Industry 4.0 (Industrial IoT) and wearable devices, all require a wireless connection, a large amount of data transportation and large amounts of bandwidth.

The graph below shows global M2M growth (in billions of M2M connections) from 2016 to 2021. Information for 2016 is actual and information for 2017 to 2021 is forecasted.

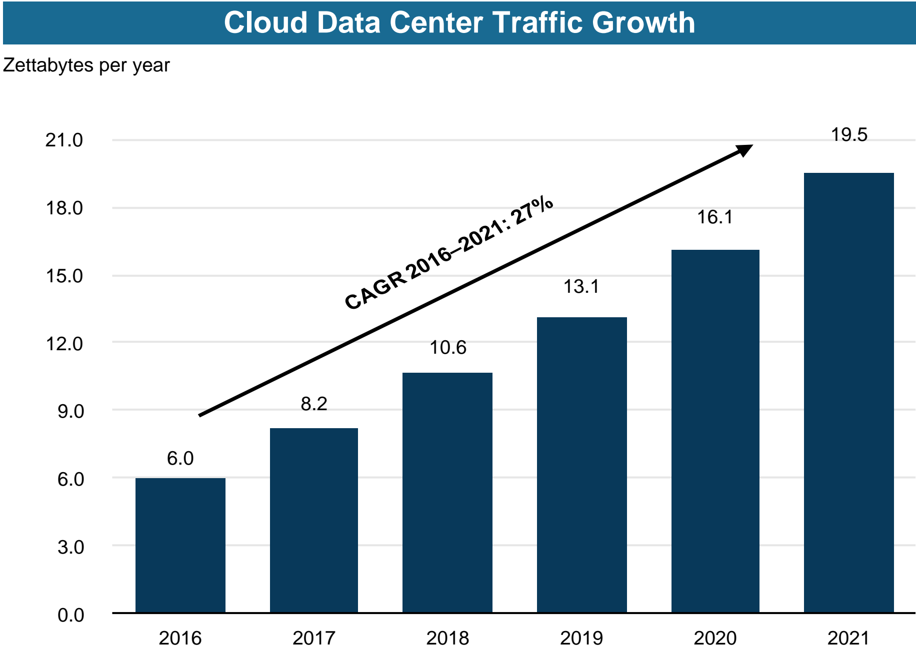


Source: Cisco Visual Networking Index: Global Mobile Data Traffic Forecast Update, 2016–2021.

The gradual evolution of cloud technology and data centres, which has been an additional driver of increased data traffic. Cloud technology has allowed individuals and businesses to store their data on the web and access it anywhere. This has enabled the rapid expansion of data-consuming companies in the Platform as a Service (“**PaaS**”), Software as a Service (“**SaaS**”) and Infrastructure as a Service (“**IaaS**”) spaces. Cloud networks substantially increase network traffic and the need to store this data has forced data storage companies and telecommunications providers to increase the number of data centres and to adjust their capabilities.

Given the proliferation of cloud technology, there is an increasing need for data centre and cloud resources for both business and consumer services, leading to the development of large-scale data centres. As a result, cloud data centre traffic is expected to grow at a CAGR of 27% from 2016 to 2021 (Source: Cisco Global Cloud Index: Forecast and Methodology, 2016–2021).

The graph below shows cloud data centre traffic growth (Zettabytes per year) from 2016 to 2021. Information for 2016 is actual and information for 2017 to 2021 is forecasted.



Source: Cisco Global Cloud Index: Forecast and Methodology, 2016–2021.

In addition, global IP traffic is expected to grow at a CAGR of 24% from 2016 to 2021 (Source: Cisco Visual Networking Index: Forecast and Methodology, 2016–2021).

Finally, AI, AR and VR are all newer technologies that require large bandwidth. As these technologies evolve and are integrated into users' everyday lives, network providers will be required to provide a network that can support their use if they wish to remain competitive.

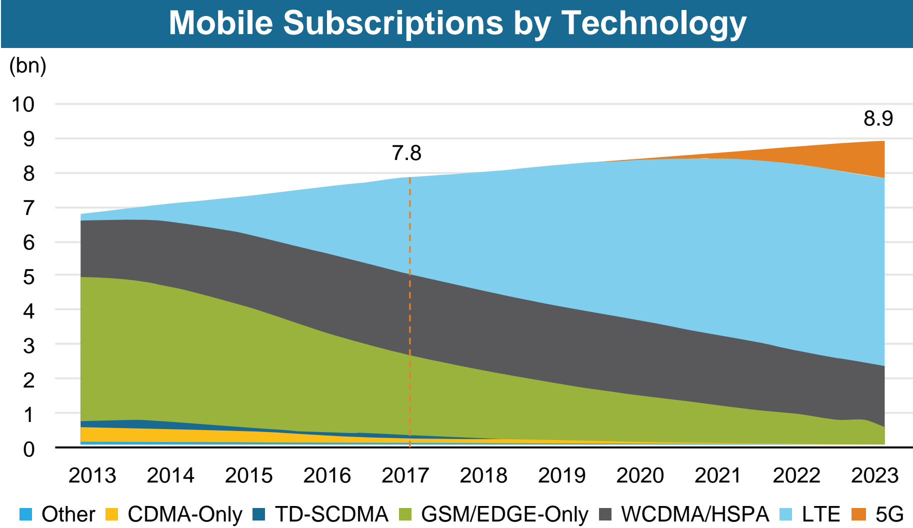
5G as a future growth driver

5G is expected to be gradually deployed worldwide with trials in 5G technology expected to begin during 2019. 5G is different from its predecessors (such as the fourth generation of mobile networks ("**4G**")) because of its increase in data speed and quality, as well as its ability to assign resources to customers in the context of network virtualisation, edge computing, and changing traffic priorities (known as "network slicing"). With 5G, devices that demand fast connections, such as autonomous cars, will require customised data connections that maximise what is required while preventing wasted data transmission.

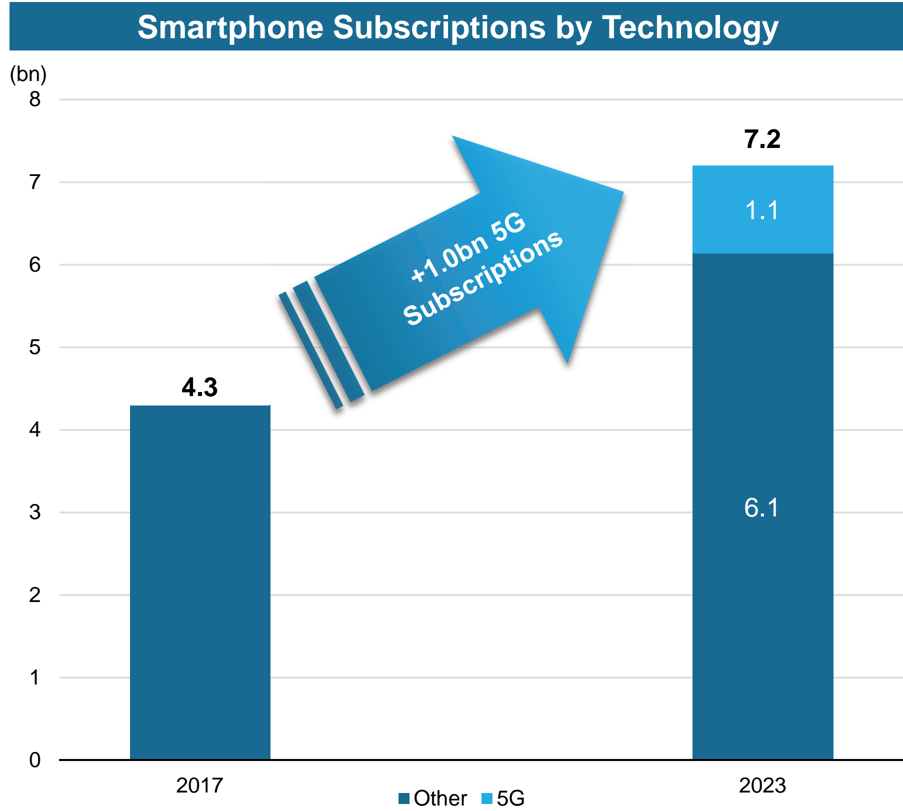
5G networks are expected to require a significant amount of investment. Carriers typically increase the number of cell towers, base stations and bandwidth capacity during each network transition to meet increases in data demand and to lower latency. However, the move to 5G is more complex than previous network upgrades as new services are demanding larger changes in network infrastructure.

The expected increases in mobile subscriptions and the amount of data traffic are expected to drive the new development of 5G technologies. In order to reduce the significant amount of capital expenditure and operating expenditure invested, telecommunications companies are looking for new efficient technologies that will support ultra-low latency and cost-effective products. While global telecommunications companies continue to expand the 4G networks, companies in the United States, China and other developed nations are beginning their development of 5G technologies. Equipment testing and pilot networks have already begun to be rolled out in North America, Europe, Japan and Korea, featuring large-scale cross-regional cooperation. By 2023, 5G is expected to reach over 20% of the world's population (Source: Ericsson, Ericsson Mobility Report, 2018) and the total number of network-connected smartphones is expected to increase by 1.9 billion to 5.7 billion from the end of 2016 to 2020 (Source: GSMA: The Mobile Economy 2017).

The graphs below show growth in mobile subscriptions by technology type and smartphone subscriptions by technology. Information for 2017 and prior periods is actual and for subsequent periods is forecasted.



Source: Ericsson, Ericsson Mobility Report, 2018.



Source: Ericsson, Ericsson Mobility Report, 2018.

2. INTRODUCTION TO THE TRANSPORT NETWORK INFRASTRUCTURE MARKET

Increasing data traffic and technological market trends have propelled a new cycle of significant investments in network infrastructure across all telecommunication companies. Transport network infrastructure can be divided into five groups of products: Optical Transport Network ("**OTN**"), Packet, SDN, NFV and Cyber Security.

OTNs are a set of network elements that are connected using optical fibre links to provide transportation, switching, multiplexing (incorporating multiple signals), supervision, management and monitoring of network channels. Modern networks are burdened by higher demand for data and a constant emphasis on improving

data transport speed. In order to support the growth in bandwidth, technology has evolved by increasing both the transmission rate and the number of wavelength channels transmitted via the optical fibre.

Packet refers to routers and switches that enable service providers to, among other things, deploy IP based or Multiprotocol Label Switching ("**MPLS**") based networks. The two main equipment types are core/edge routers and switches. The key trends in data usage are expected to drive accelerated migration to a packet-based network. Modern packet-based networks support more capacity, reduces latency and power consumption and are moving towards a more dynamic solution that allows the network to react to change more quickly.

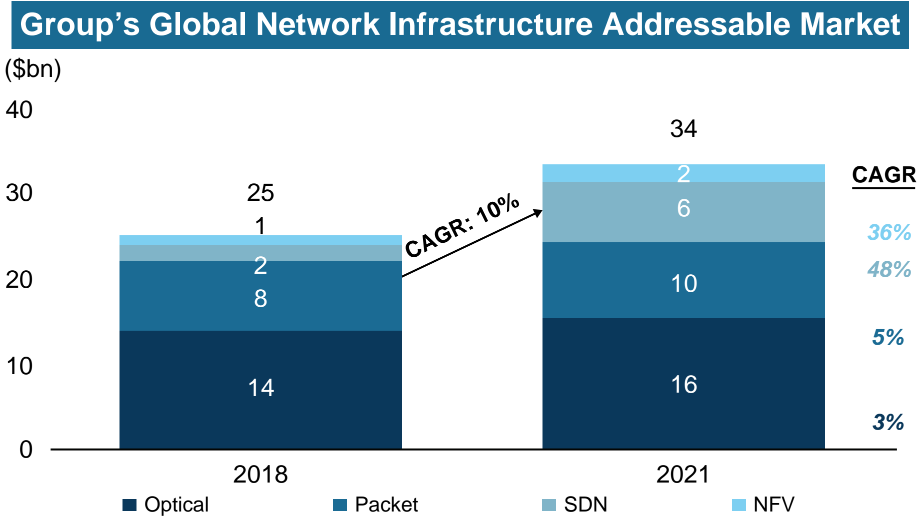
Through NFV, network operators can decouple physical network assets from the services or capabilities they provide. This allows network operators to more effectively allocate resources by determining which parts of the network should be used for a given connection. Moreover, NFV is widely expected to reduce the cost of network operation and capital expenditure.

SDN seeks to simplify network operation, to enhance interoperability between different pieces of equipment in the network and to create a more open environment that eases management, supports automation, and quickly delivers customised services to end users.

Cyber-Security solutions are becoming increasingly important and complex as telecommunications companies and data providers expand their networks. As more and more critical data is transported on networks, keeping the data secure becomes a priority. For example, malicious actors can use Service Provider networks to hack personal devices, steal confidential information, and can target critical national infrastructure on a large scale.

The Company estimates its total addressable market ("**TAM**") was $25 billion in 2018 and forecasts that it will increase to $34 billion by 2021, a 10% CAGR (Source: Company estimates including internal analysis derived from Ovum data (for Optical and Packet)).

The graph below shows the global network infrastructure addressable market's forecasted growth from 2018 to 2021.



Source: Company estimates including internal analysis derived from Ovum data (for Optical and Packet).

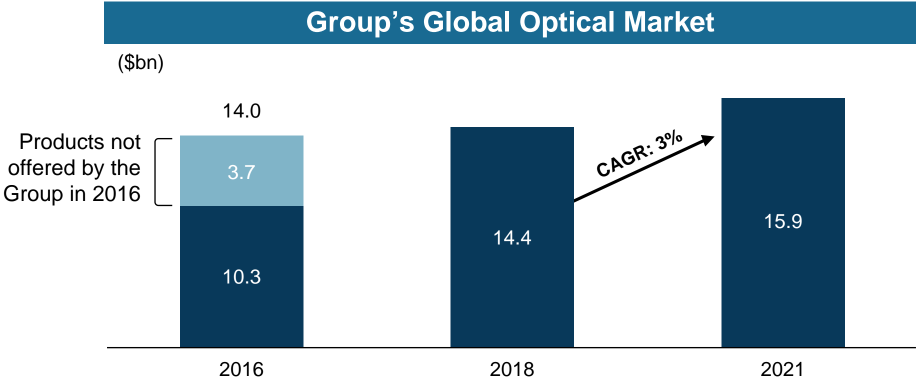
These five groups of products are applicable to all parts of the network—core, metro and access. Core networks connect local providers to one another, while access networks connect subscribers to their service providers. Metro networks, on the other hand, are often used in metropolitan areas and connect subscribers to the internet or a larger service network.

In accordance with the evolving data usage trend, investments in network infrastructure have increased. Asia Pacific was the main engine of growth in 2017 as a result of large investments by China and India (Source: Company estimates). China and India had the highest spending in Asia Pacific in every network solution category in 2017 (i.e. optical network, packet, SDN and NFV) (Source: Company estimates). The popularity of metro networks, expansion of data centre infrastructure, and the expected upgrade of mobile transport infrastructure to 5G are among the factors behind the recent increase in investment in the Asia Pacific region (Source: Company estimates). Unlike Asia, a slowdown in sales has weakened optical network investment in North America, although general spending on network infrastructure is expected to gain strength

from the deployment of 5G (Source: Company estimates). Caribbean and Latin America ("**CALA**") and EMEA are expected to maintain a lower yet positive rate of growth (Source: Company estimates).

Optical

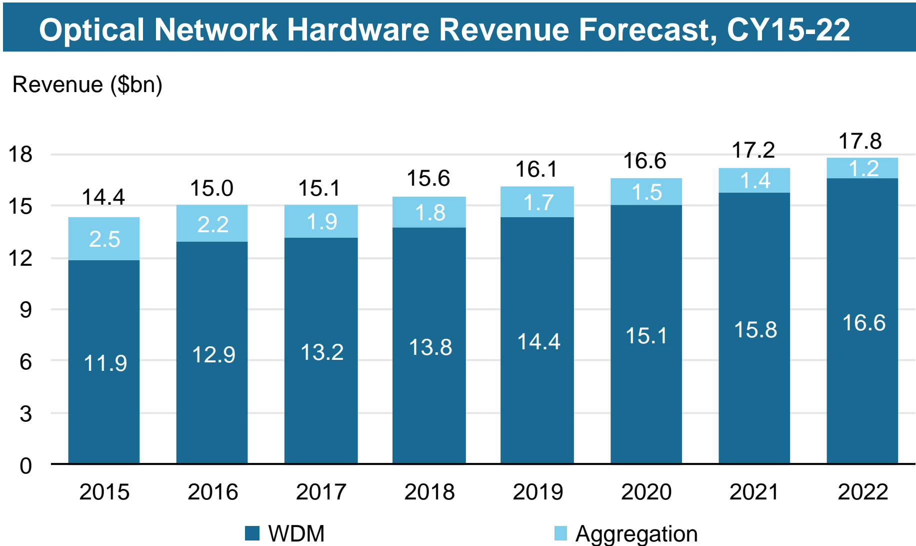
Optical equipment is a set of network elements that are connected using optical fibre links via wavelength division multiplexing ("**WDM**") technology. The network provides transportation switching, multiplexing, supervision, management and monitoring of channels carrying signals. The optical equipment market is a core component of telecommunications solutions. The Group's global optical TAM is forecasted to grow at a CAGR of 3% from $14.4 billion in 2018 to $15.9 billion in 2021 as shown in the graph below (Source: Company estimates derived from internal analysis of Ovum data). Adjusted for products not offered by the Group in 2016, the Company forecasts that the Group's global optical TAM to grow 54% between 2016 and 2021, from $10.3 billion in 2016 to $15.9 billion in 2021 as shown in the graph below.



Source: Company estimates derived from internal analysis of Ovum data, adjusted in 2016 for products not offered by the Group, being ODU-XC.

The WDM technology converts digital signals to optics and multiplexes a number of optical carrier signals onto a single optical fibre by using different wavelengths. This allows multiplication of capacity, enabling transmission of information at a faster rate than many other technologies. In addition, fibre optic data transport is usually capable of handling all types of data transport. The transport protocol used to transmit the data is OTN. The OTN protocol can be used in two operational modes: Transport and OTN switching. Transport mode multiplexes multiple services to one wavelength and transmits them over the fibre, while OTN switching provides more flexibility and provides the ability to switch services from one wavelength to another.

The graph below sets forth a forecast of revenue for the global optical network hardware market from 2015 to 2022.

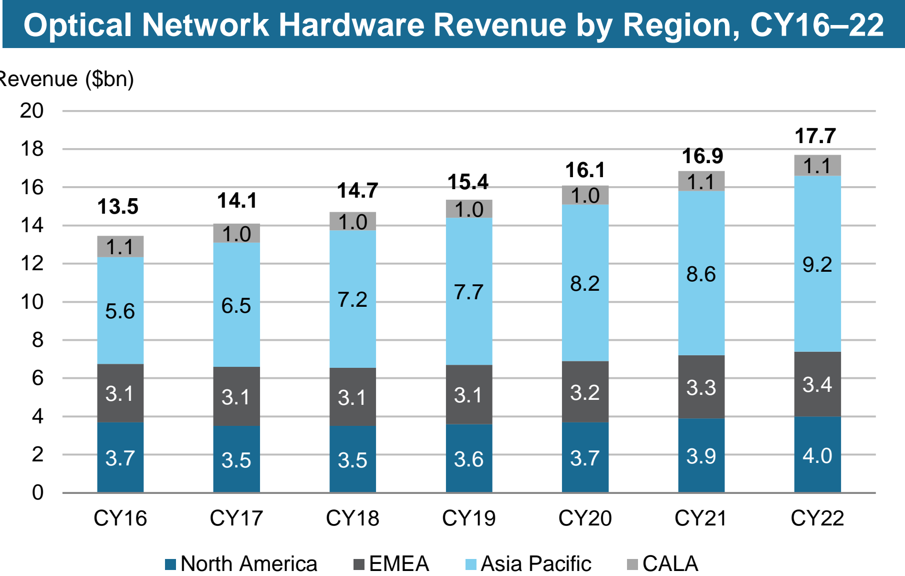


Source: Ovum Optical Networks Forecast 2017–2022.

According to Ovum, the WDM market is expected to grow at a CAGR of 5% from 2015 to 2022, while "Aggregation", which is an older form of optical networking, will decrease significantly. The Directors believe that there are currently no significant substitute or replacement technologies for WDM equipment.

Based on Company estimates, in 2018 APAC remained the region spending the most on optical network hardware and its growth in the market is expected to outpace North America, EMEA and CALA until 2022. The Company estimates that the Indian optical market is expected to grow 11.4% between 2016 and 2022, representing the strongest growth by region. The Company estimates that the India market has approximately 1.2 billion wireless subscribers and only 300 million mobile broadband users and by 2021, the Company expects India will reach approximately 1 billion mobile broadband users at a 32.8% CAGR (since 2016), which will drive the need for further 5G investment.

The graph below sets forth forecasted optical network hardware revenue by region over the period indicated.



Source: Company estimates, CY 16–17 actual and CY18–CY22 are forecasted.

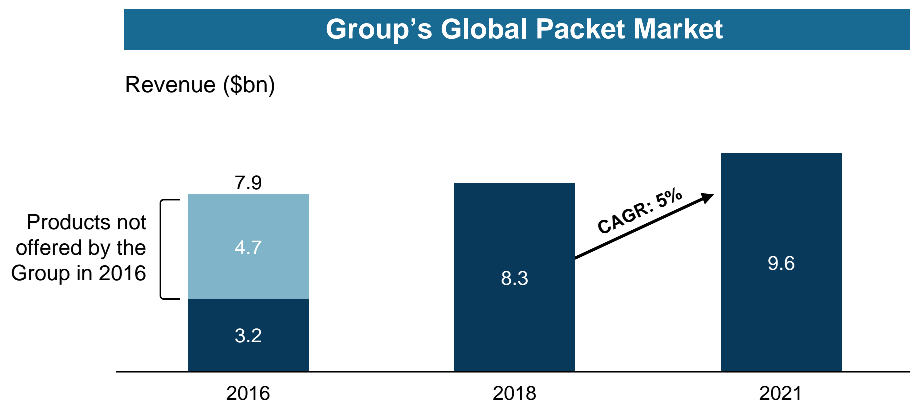
Packet

Packet refers to routers and switches that enable service providers to deploy IP-based or MPLS-based networks to improve the speed and quality of the network. The two main equipment types are core/edge routers and switches, which provide more service functionality.

Double-digit growth in data traffic is pushing Service Providers to invest in network capacity (see "*—The Global Telecommunications Market*" above). Small cell technology, which uses numerous low-powered, short distance radio access nodes rather than fewer and larger nodes, is expected to play a substantial role in satisfying growing demand for packet transport solutions (Source: Company estimates).

The packet layer is expected to evolve in the near future in order to support 5G requirements. Segment routing (a new forwarding paradigm that provides source routing, which means that the source can define the path that the packet will take) and network slicing (a specific form of virtualisation that allows multiple logical networks to run on top of a shared physical network infrastructure, allowing changing traffic priorities) functions as well as SDN solutions are being developed to allow network providers to create more effective infrastructures that can support the growing number of IoT devices and services that require extremely low latency.

The Group's global packet TAM is forecasted to grow at a CAGR of 5% from 2018 to 2021, from revenue of $8.3 billion in 2018 to $9.6 billion in 2021 (Source: Company estimates derived from internal analysis of Ovum data). Adjusted for products not offered by the Group in 2016, the Company forecasts that the Group's global packet TAM will grow three times larger between 2016 and 2021, from $3.2 billion in 2016 to $9.6 billion as shown in the graph below.



Source: Company estimates derived from internal analysis of Ovum data, adjusted in 2016 for products not offered by the Group, being IP/MPLS.

Rising demand for packet networking solutions in emerging markets such as China and India are also driving market growth. As a result, APAC is expected to be the fastest growing market for packet networking solutions in the near future (Source: Company estimates).

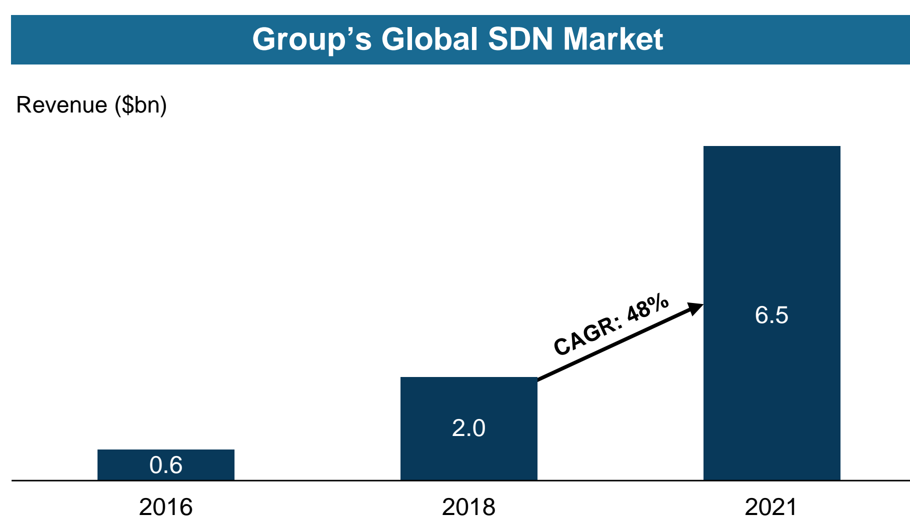
SDN

As customers using data networks demand increasing amounts of data and network complexity, network operators are forced to respond by reducing costs and promoting flexibility. Alongside these changes, network operators are beginning to look towards the future and are adopting high-tech software solutions around automation, virtualisation and standardisation in order to make the next generation of network infrastructures more efficient and easier to work with. Network operators have adapted by introducing technology that can be leveraged by an ever-changing consumer to simplify and enhance their experience while also generating revenue.

SDN aims to provide a simpler experience to users by delivering customised, easily programmable services and supporting network visibility. It also aims to simplify the interoperability between different vendors and equipment within the network and provides a higher level of automation. Through this software, network operators can improve their information flows to reduce cost, increase speed and gain greater control of their network overall.

Over time, SDN is expected to be used to fully automate these processes and to support future technological innovations. For instance, the deployment of 5G networks is expected to be based largely on SDN architecture as many of the 5G features are built on SDN functions, such as network slicing and segment routing (Source: Company estimates).

The Company forecasts that the Group’s global SDN market will be over ten times larger between 2016 and 2021, having grown from $0.6 billion in 2016 to $2.0 billion in 2018, and forecasted to grow at a CAGR of 48% between 2018 and 2021, to $6.5 billion in 2021 as shown in the graph below. (Source: Company estimates).



Source: Company estimates.

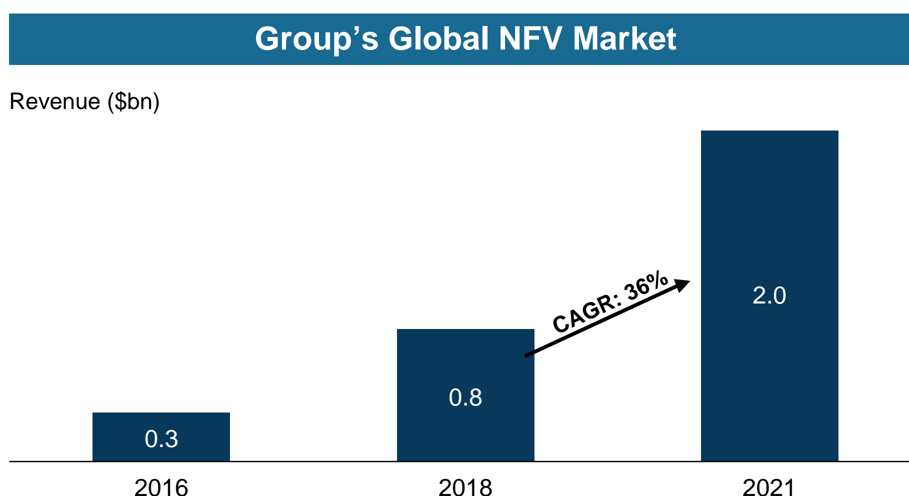
NFV

NFV allows network operators to reduce cost through reduced power and space requirements while simultaneously improving flexibility. This is done by separating the physical assets of the network from the services that they provide. By doing so, network operators can choose what services they want to use through software rather than spending on services they do not need. SDN and NFV often combine to improve customer experience and efficiency.

Integrating NFV function in transport equipment aims to reduce the investment in the network, its footprint and power consumption and also to improve the network's operation.

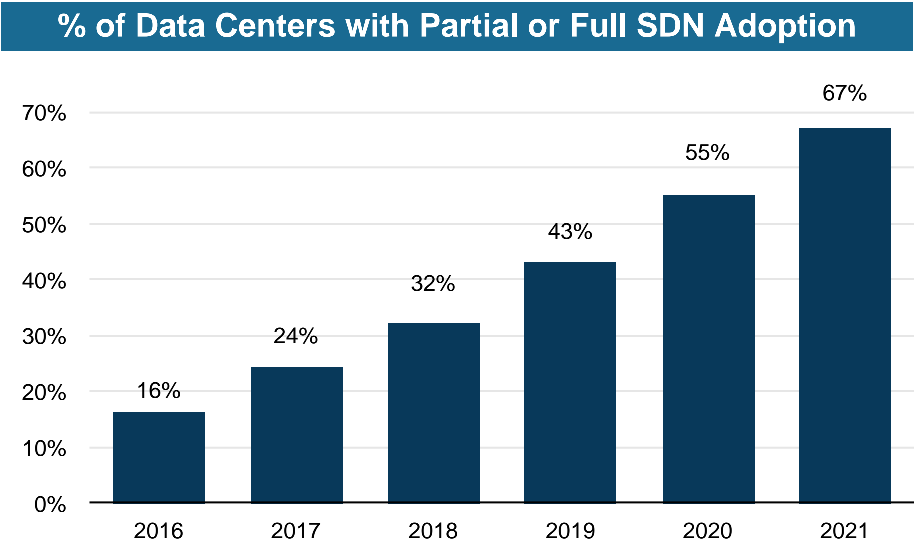
Also as a result of the expected shift to 5G, NFV functions are expected to scale down to the metro edge and access. Today, service providers are already replacing Customer Premises Equipment ("**CPE**") with virtual boxes which enable the download of a new service remotely by the network operator, thereby making the need for a technician visit redundant. 5G would allow NFV functions to be deployed at the edge of the network and provide quick responses to some of the services that require low latency.

SDN and NFV also support an enhanced user experience. Additionally, SDN and NFV provide a dynamic binding, over which servers are able to take control during bursts of data usage. These abilities, in turn, reduce the need to plan the server availability, help speed up the time to market on new product offerings, and improve user experience by balancing data usage during peak and non-peak hours. The Group's overall NFV market is forecasted to grow from $0.8 billion in 2018 to $2.0 billion in 2021, a CAGR of 36% (Source: Company estimates), as set out in the graph below. The Company forecasts that the Group's global NFV market will be over six times larger between 2016 and 2021, from $0.3 billion in 2016 to $2.0 billion in 2021 as shown in the graph below.



Source: Company estimates.

Most of the major data centres have already deployed SDN and NFV solutions, with over two-thirds of data centres forecast to adopt SDN either fully or in a partial deployment by 2021, as shown in the graph below (Source: Cisco Global Cloud Index: Forecast and Methodology, 2016–2021).



Source: Cisco Global Cloud Index: Forecast and Methodology, 2016–2021.

Cyber Security

The growing trend of extensive data usage has pushed networks to become more advanced, and to transport more data than ever before. As technology rapidly evolves, cyber security becomes increasingly important for governments, companies and general users. One of the main factors that contributes to the increasing necessity of cyber security protection is the adoption of 5G. In a 5G world many more devices are expected to be connected to the network, including devices such as autonomous cars which are expected to require greater security from cyber-attacks, and as a result protecting these devices will become critical.

Institutions and general users must be able to protect themselves against increasingly intelligent malicious attacks through complex encryption and scalable technologies. At the same time, cyber-attacks have become more complex and have targeted critical infrastructure successfully. For example, in 2017 a large cyber-attack hit government infrastructures in Ukraine, shutting networks down and disrupting critical functions. Ukraine's national bank, state power company and the largest airport were among the main targets of this attack. By building new products with security as a top priority, network operators can enter the new age of network communications with strong and adaptable cyber security solutions fully integrated into their systems. The full integration of cyber security telecommunications infrastructure is a critical part of preventing attacks before they happen.

3. TARGET MARKETS

Service Providers

Service Providers are defined as mobile/fixed network operators, CSPs and data centre connectivity providers.

Mobile and fixed network operators are influenced by the bandwidth demand of private households. The significant increase in networked devices, through both mobile and IoT, has created demand that has driven significant investments into the expansion of network infrastructure. Based on Company estimates, there were 27 billion IoT connected devices in 2017, and by 2030 this number is expected to reach 125 billion. Mobile and fixed network operators are forced to react to this increase in demand by increasing their fibre optic network and improving their wireless technology from 4G to the eventual 5G. The goal of such companies is to reach the largest audience for the lowest possible cost, and so they are inclined to rely on existing infrastructure on many parts of their network while also investing in simple, fast and dynamic innovations to support the constant evolution of technology today.

Data centre connectivity providers and certain CSPs target enterprises that are primarily concerned with consistency of service and protection against data loss, which can lead to reputational damage and/or negative

business impact. Several recent high-profile cyber-attacks have highlighted the need to protect company and customer data, which has been collected and stored on an increasingly massive scale.

Utilities and Governments

In a digitally networked world, Utilities and Governments depend on the integrity of their data and the availability of digital resources. Similar to the Defence and Security market, these organisations build their own network infrastructure, for both reliability and security reasons, and usually require the network to have strong redundancy and security features built into it because of the mission critical nature of data that is used in these organisations. In addition, national research and education networks ("**NRENs**") fall within this market. NRENs have unique demands for their networks, using private or sometimes "hybrid" (both public and private to outsource non-critical functions) cloud networks, as well as having a need for security and efficiency.

The digitisation of cities, electric, water and gas grids, highways, railways and urban areas is also expected to drive an increased demand for advanced network components that can provide the required bandwidth at low latency and with great reliability (Source: Company estimates). These customers are also expected to demand state-of-the-art cyber security systems (Source: Company estimates). Utilities are particularly challenging markets to address because of the customisation necessary with regard to network functionality.

Defence and Security

As the Defence and Security market, including ministry of defence, secret service and national/border guards, has begun to modernise, their data usage has increased significantly. With an emphasis on speed, reliability and security, defence customers have unique telecommunications needs that are expected to increase as defence activities use increasingly advanced technologies (Source: Company estimates).

The Defence and Security network is different from the "standard" network of Service Providers and in many cases each defence or security force develops its network tailored to its unique needs. These networks are also designed to cover all security aspects in order to efficiently prevent attacks.

Based on Company estimates, the shares of Service Providers, Government and Utilities, and the Defence and Security sector in the Group's total addressable market for the year ended 31 December 2017 were 66%, 17%, and 17% respectively.

Part 5
BUSINESS

1. OVERVIEW

The Group is a leading global provider of comprehensive networking products and solutions to Service Providers, Utilities and Governments, and Defence and Security customers, each as defined below. The Group has been providing comprehensive networking products and solutions since 1961 and is one of only a few providers globally offering both optical and packet networking products and solutions, with a diverse and long-standing global customer base. For the year ended 31 December 2017, all of the Group's top 10 end-customers by revenue had purchased the Group's products or services every year since 2008. The Group is headquartered outside Tel Aviv, Israel and had over 250 customers and operations in more than 70 countries worldwide as at 31 December 2017.

Since 2012, the Group has changed its strategy to focus solely on optical and transport products and solutions and has introduced a new full set of products and solutions. These new offerings include software based solutions and cyber-security network protection.

The Group has successfully grown its business with 24% revenue growth in the six months ended 30 June 2018 compared to the six months ended 30 June 2017. The Group, becoming a challenger in its markets, has generated over 70 "new wins" since 2016, comprising new customers or new products being ordered by existing customers. Over 65% of these new wins have been with new customers and these new wins have been with customers located in more than 30 different countries, with the majority from EMEA. These new wins have generated approximately $170 million in revenue from the beginning of 2016 to 30 June 2018. Since the beginning of 2017 until mid 2018, the Group estimates it has been the fastest growing provider by revenue CAGR amongst its key European and US peers, including Ciera, Nokia, Cisco, Infinera and ADVA.

To further expand its global reach and add an additional growth lever, the Group has been increasing its number of global partnerships with over 20 new partnership agreements signed during 2018. In early 2018, the Group signed a global partnership agreement with Ericsson, a worldwide leading provider of telecommunications technology, with over $22 billion in revenues in 2017 and customers in over 180 countries. The two companies are collaborating in joint projects addressing various opportunities and have already jointly won projects in Denmark, Greece, the United States and Brazil. The Group is also currently working with Ericsson on several potential opportunities at the proof of concept stage, which could be material if the customer contracts with those Tier 1 telecom service providers are won. Ericsson has recently announced that the Group is now an integral part of their 5G end-to-end transport solution.

As a result of the above initiatives and its new offerings detailed below, the Company estimates TAM was $25 billion in 2018 and forecasts that it will increase to $34 billion by 2021 a 10% CAGR (Source: Company estimates including internal analysis derived from Ovum data).

The Group has built its brand around its "Elastic" network of products and solutions, whereby customers have the ability to construct a tailor-made network to meet their current needs, while remaining flexible to evolve to meet their changing needs. Since 2007, the Group has invested over $1.0 billion in research and development to develop leading-edge transport products and software communication solutions. At the heart of the Elastic network are the Group's current five core products and solutions:

1. the Apollo Optical family of data transport products and solutions ("**Apollo**");
2. the Neptune Packet-Optical family of data transport products and solutions ("**Neptune**");
3. the network function virtualisation ("**NFV**") based solutions offered under the Group's Mercury brand ("**Mercury**");
4. the software-defined networking ("**SDN**") applications offered under the Group's Muse^{TM} Orchestration brand ("**Muse^{TM} Orchestration**"); and
5. the cybersecurity solutions offered under the Group's "Muse^{TM} Compass" brand ("**Muse^{TM} Compass**").

Along with these core products and solutions, the Group also offers a variety of end-to-end network management, professional support and third-party solution services, which together comprise the Group's "Elastic Services Platform". The Apollo, Neptune, Mercury, MuseTM Orchestration and MuseTM Compass products and solutions together with the Elastic Services Platform comprise the Group's "Elastic" network of products and solutions.

The Group has created its "Elastic" network of products and solutions to provide its existing and future customers with an integrated transport solution for their existing product portfolio as well as for the expected shift to the fifth generation of mobile networks ("**5G**"). The Elastic network of products and solutions are designed to enable operators to scale and build underlying infrastructure to address key 5G requirements, such as ultra-low latency and hyper-flexible bandwidth, and expand customers' SDN and NFV implementation, while simplifying and automating the operational lifecycles of network equipment in order to reduce operating expenses. To support its growing focus on software solutions, and leveraging on Israel being one the world's leading technology hubs, approximately 87% of the Group's research and development personnel were software engineers as at 30 June 2018.

The Group offers its portfolio of complementary networking products and services to the following customers:

- communication service providers, including mobile/fixed network operators, CSPs and data centre connectivity providers (defined as "**Service Providers**");
- utilities and governments, including power, water, oil and gas, transportation, government and municipalities and national research and education networks ("**NRENs**") (defined as "**Utilities and Governments**"); and
- defence and security network operators, including ministries of defence, security services and national/ border guards (defined as "**Defence and Security**").

The Group's revenue from Service Providers, Utilities and Governments and Defence and Security customers for the year ended 31 December 2017 was 66%, 17% and 17% respectively.

The Group operates globally in the following geographical segments: (1) Europe, the Middle East and Africa (which includes the former soviet union region ("**FSU**") but excludes Israel) ("**EMEA**"), (2) India, (3) Israel and (4) the rest of the world ("**RoW**"), representing 32%, 42%, 15% and 11%, respectively, of the Group's revenue for the year ended 31 December 2017.

The Group has successfully grown its business in recent years. The Group's revenue for the years ended 31 December 2017, 2016 and 2015 was $367.2 million, $326.0 million and $335.1 million, respectively, and for the six months ended 30 June 2018 and 2017, was $197.7 million and $159.0 million, respectively. The Group's EBITDA for the years ended 31 December 2017, 2016 and 2015 was $50.3 million, $50.6 million and $53.3 million, respectively, and for the six months ended 30 June 2018 and 2017, was $29.9 million and $13.0 million, respectively.

2. COMPETITIVE STRENGTHS

The Group believes that it benefits from the following competitive strengths:

Product and service offering well positioned to capitalise on growing global markets

Increasing consumer and enterprise demand for data and bandwidth remains a key trend in both developed and developing markets, with global IP traffic expected to grow at a 24.0% CAGR between 2016 and 2021 (source: Cisco Visual Networking Index: Forecast and Methodology, 2016–2021). According to Ovum, smartphone subscriptions in India are expected to grow at a 17% CAGR from from 2017 to 2023, while smartphone subscriptions in Europe and China are expected to grow at a 6% and 5% CAGR, respectively, from 2017 to 2023. This demand for data, in conjunction with continued adoption of smartphones and other connected devices, as well as adoption of new technologies is expected to continue and to put pressure on operators' networks.

The Directors believe that the Group's product development activities along with its increased product functionality, its focus on next-generation transport products and the Group's recent introductions of SDN, NFV and cybersecurity solutions and expanded geographical coverage, are expected to expand the Group's Addressable Market to $34 billion by 2021, an estimated 10% CAGR since 2018 (Source: Company estimates including internal analysis derived from Ovum data). Within the Group's Addressable Market, the Company forecasts the following:

- The Group's optical equipment TAM is expected to grow from $10.3 billion in 2016 to $15.9 billion in 2021, a 54% increase (Source: Company estimates including internal analysis derived from Ovum data),, driven by key market trends including an accelerating deployment of OTN switching solutions, the shift to a more dynamic optical layer and increased long-haul networking solutions in emerging markets.

- The Group's global packet TAM is anticipated to grow, from $3.2 billion in 2016 to $9.6 billion in 2021, a threefold increase (Source: Company estimates including internal analysis derived from Ovum data). Some key market trends include network modernisation which is expected to accelerate the migration to packet-based networks, coupled with the desire of Service Providers to deploy 4G-ready and 5G-ready network elements as well as the requirement for increased scalability across the network.
- The global market for the Group's SDN and NFV transport solutions will grow to $8.5 billion in 2021. The Directors believe that in the medium-term, virtualisation will transform nearly all aspects of the telecommunications transport market. SDN and NFV solutions are designed to facilitate significant operating expense reductions for network operators, which the Group believes will be important in a 5G environment. In addition, the Directors believe that many network based Service Providers will be executing NFV programmes in the coming years and will be looking to implement SDN networking, as a result of the overall anticipated network traffic growth (see also "*Industry*" for additional information on this anticipated network traffic growth).

In addition, the Group believes it has a strong position in the following regions: EMEA (including Israel), Asia (including India and APAC) and the Americas, which represented 47%, 47% and 6% of the Group's revenues for the year ended 31 December 2017, respectively. Within EMEA, the Group has a strong position in the Utilities and Governments and Defence and Security markets and is growing strongly with over 60% of the Group's new wins since 2016 being with EMEA and Russia Tier 1 customers. The Group expects it will be able to leverage its experience and success in Asia to enter the 5G market in EMEA. Within Asia, the Group is an established mobile backhaul player in one of the world's most demanding and fastest growing markets. The Group is currently developing leading 5G solutions jointly with its strategic partner in this region and continues to grow its Utilities and Governments customers. Within the Americas, the Group is focused on addressing the US market, which is the largest single market globally. Leveraging its strategic partnerships, the Group has recently won new Utilities and Governments and Tier 2 and Tier 3 customers.

An integrated suite of flexible transport networking products and solutions that are at the core of customers' networks

The flexibility of the Group's transport networking products and solutions enables its customers to deploy and tailor the Group's networking products and solutions to their needs. Each of the Group's solutions act as a building block for a customer's transport network and can be sold and deployed as a stand-alone product or as part of a complete Elastic solution. The Group also provides migration from legacy services to new advanced services providing smooth migration from an old network to a next generation network, including a customer's migration from 4G to 5G.

- The Apollo transport solution supports both a transport solution as well as an OTN switching solution. The customer can use either option in its network or mix solutions within the same network according to its needs. Many of the Apollo cards are capable of supporting a variety of applications and services, including SDH, SONET, FC and OTN services, which the customer can select through the use of Apollo's underlying software.
- The Neptune transport solution supports both hybrid mode and pure packet processing mode. The customer can mix and match cards and functions to meet its needs. For an example for a utility application, the customer can use the hybrid mode to support legacy services along with advanced IP function. The product line also supports MPLS-TP and IP/MPLS protocols and the customer can choose to deploy either protocol or mix MPLS-TP at the metro while IP/MPLS forms the metro core. The Directors believe the Group's Neptune transport solution is one of only a few solutions in the market which can support both modes in a single product.
- The NFV-based solutions can be integrated in the Elastic transport solution or can be deployed over third party networks using a stand-alone appliance/box. Any virtual function can be integrated into the Elastic solution.
- The SDN applications are fully open (based on standard interfaces), so that a customer can use the Group's SDN orchestration to manage the Elastic solution and the third-party solution, or a third party's SDN orchestration can manage the Elastic transport solution giving the customer the flexibility to choose the best building block solutions for any function.
- Finally, the Group's cybersecurity solutions can be integrated into the Elastic transport solution or can be deployed as a stand-alone application over a third-party transport solution.

Large blue-chip customer base with recurring revenue streams

The Group believes that its customers are looking for long-term partners able to meet their technology requirements for network upgrades and expansions with minimal service disruption and at low total cost of ownership. The Group believes it has proven to be a strong market player from this perspective, given the continuity of its product offerings through the various technology lifecycles.

As at 31 December 2017, the Group had over 250 customers and operated in more than 70 countries worldwide. The Group's customers included some of the largest global Service Providers such Bharti Airtel, Telecom Italia and VEON, and its operations covered both high growth emerging markets (such as India) and stable developed markets (such as Germany). The Group also has strong relationships with certain Utilities and Governments and Defence and Security customers, leveraging its experience in the defence industry and long-term know-how.

The Group prides itself on maintaining long-term relationships with its customers, allowing it to develop a deep understanding of their networks as well as their current and future needs. The Group has long-term customer relationships. For example, for the year ended 31 December 2017, all of the Group's top 10 end-customers by revenue have purchased the Group's products or services every year since 2008. For the year ended 31 December 2017, the Group derived 91% of its revenues from existing customers. The Group's business model relies on recurring revenues from its networking solutions and products, driven by long-term customer relationships with high retention rates, as well as from its support services provided to its customers via service agreements, which are generally renewed on a regular basis.

Due to the significant amount of capital expenditure required to be made by network operators to develop their networks, as well as their desire to avoid renewing their infrastructure upon every upgrade/expansion requirements, customers in our industry historically tend to stay with their transport solutions provider for long periods of time.

The Group's products offer network operators the flexibility to expand and adapt their legacy infrastructure to new and improved products and solutions thereby leveraging their previous investments, as well as provide customers with an integrated set of new or improved functionalities at attractive prices. Additionally, the Group's solutions provide a modular structure which allows customers to upgrade their network gradually as scale and bandwidth requirements arise, with limited service disruption risk and limited additional costs.

With respect to the Group's support services, the Group benefits from one to three year-long contracts with the majority of its customers, which are typically renewed on a regular basis. The Directors believe customers will typically contract with their transport solution provider to also provide support services to minimise network risks. Furthermore, transport products typically had a life of over 15 years, as seen with the Group's legacy XDM and Access products.

Continued focus on innovation and strong research and development capabilities

The Group believes that it has significant technological assets and know-how as a result of its:

- long tradition and history of research and development innovation with strong research and development and engineering workforce, allowing it to be first to market with key technologies over the past decades;
- close integration between the Group's product, marketing and sales teams incorporating client feedback into the research and development process;
- robust know-how, trade secrets, software and expertise in the industry; and
- development of expertise in a number of specific market segments such as Service Providers, Utilities and Governments, and Defence and Security.

Since being taken private in 2007, the Group has invested over $1.0 billion in research and development expenditure to develop the latest generations of hardware and software transport communication solutions. These investments contributed to the development of the Apollo and Neptune product families, which were introduced in 2012 to 2013, and for which the Group has continued to add innovative new models and key functionalities throughout 2014 to 2018. These core products have been deployed across a majority of the Group's customers across all regions and will also serve as the base architecture for new product development over the next decade. In addition, the Group has introduced a suite of higher-margin SDN, NFV and security software products to position the Group strategically for enhanced future growth as the market evolves. More recently, the Group has been shifting its research and development to focus on software products, which the Directors expect to drive future growth and offer higher margins. As at 30 June 2018, 42% of the Group's

employees were research and development personnel and 87% of the Group's research and development personnel were software engineers.

The Group has research and development centres located in Israel, India and China and operates a multi-site development model, integrating knowledge and capabilities from all research and development centres in developing its products. The Group retains critical research and development expertise in Israel.

The Group believes that the quality of the Group's research and development efforts is best demonstrated by the recent adoption of Apollo and Neptune products and solutions by existing and new customers as well as receiving multiple industry awards in 2018 and 2017, including NGON & Optical DCI Awards for Best Multi-layer SDN Controller (2018) and for the Test & Measurement—LightPULSE™ (2017), the CIO Applications Award for 1 of the top 25 Utility Tech Vendors (2017) and the Utilities Technology Council Impact Award for Software—LightSEC™ (2017).

Experienced management team and a supportive shareholder

The Group's management team has extensive industry experience of an average of over 25 years, with a track record of reducing costs, making strategic business changes and developing and maintaining strong customer relationships. The key members of the management team include:

- Darryl Edwards, President and CEO since August 2012 with more than 30 years of experience in the telecommunications industry;
- Giora Bitan, Executive VP and CFO since October 2010, who also served in this position from 2002 to 2007 when the Group was traded on Nasdaq;
- Jimmy Mizrahi, Executive VP and head of the Group's Portfolio with over 25 years of experience in the telecommunications industry;
- Fernando Valdivielso, Executive VP of Global Sales and Marketing with over 25 years of experience in the telecommunications industry; and
- Boaz Yardeni, Executive VP of Global Technology with over 25 years of experience in the telecommunications industry.

The Directors believe the current senior management team has been instrumental in driving the Group's recent commercial momentum and preparing it for long-term growth.

In addition, the Directors believe that Swarth Group adds a unique value to the Company as its largest shareholder, considering Swarth Group's deep experience in the communications technology industry. Swarth Group is a privately held investment company focusing on technology and telecommunications, controlled by Shaul Shani, a seasoned technology, media and telecommunications entrepreneur and investor. The Swarth Group's team has a track record of building and managing companies in the technology and telecommunications sectors.

3. STRATEGY

The Group has the following key business strategies:

- ***Continue to invest in 5G-ready products and solutions to position the Group to benefit from anticipated wave of 5G investment:*** The transition to 5G is expected to require a significant amount of investment by network operators. The Group believes its continued investment in its core product families, will provide its existing and future customers with an integrated transport solution for 5G, enabling operators to scale and build underlying infrastructure for addressing key 5G requirements such as ultra-low latency and hyper-flexible bandwidth, while simplifying and automating operational lifecycles to reduce operating expense. The Group's first 5G slicing packet network solution prototype is expected to be executed in the second half of 2018.
- ***Continue to address the Group's existing customers' current and evolving network needs:*** with 91% of the Group's annual revenues for the year ended 31 December 2017 derived from its existing customer base, the Group strives to maintain close relationships with its customers and to support their current and expected network deployment. For example, in India, the Group expects to continue mobile backhaul deployments for 4G with its major customers as well as to sell more optical products to these customers.
- Expand the Group's customer base across its end markets, and specifically in end markets where the Group has competitive advantages: the Group actively looks to acquire new customers across the Service

Providers, Utilities and Governments, and Defence and Security markets by participating in and winning competitive tender bids for network projects. For example, since 2016 the Group has achieved over 70 new wins (either product orders from new customers or new product orders from existing customers), over 65% of which were with new customers with whom the Group will look to establish long term relationships going forward and 59 of which the Group is the sole transport network provider. 48% of the new wins were with Service Providers, 42% with Utilities and Governments and 10% with Defence and Security. In addition, the Group focuses its direct sales efforts on markets and opportunities in which the Group believes it has unique competitive advantages, particularly with its large Service Provider customers, such as Bharti Airtel in India from whom the Group has successfully won additional product contracts since 2016. Furthermore, the Group believes that its long history, deployment track record and reference clients in the Utilities and Governments and Defence and Security markets provide it with a competitive advantage.

- ***Penetrate the North American transport market:*** the Group believes that the North American market is attractive from a scale, growth and margin perspective. The Group has historically had limited presence in North America, primarily due to differences in transport product standards, which have undergone changes in recent years and therefore are no longer a material constraint on the Group's penetration of the North American market (i.e. the shifting from SONET, a legacy transport solution, to IP and WDM technology). The Group believes that these changes coupled with its recent strategic partnership with Ericsson and its current product lines will help enable it to penetrate the North American transport market.
- ***Partner with leading industry players to expand reach:*** the Group maintains a global channel programme through which the Group works with third parties (which the Group refers to as "partners") to extend its reach to additional customers, larger-scale communications projects and geographies in which the Group does not currently have extensive presence. For example, the Group recently entered into a global OEM strategic agreement with Ericsson, a worldwide leading provider of telecommunications technology to cooperate together globally on providing Elastic optical transport for Ericsson's 5G network solutions. The Group believes Ericsson's strong customer relationships and strong presence in North America and the Far East will provide the Group with the sales force needed to penetrate Service Providers, Utilities and Governments, and Defence and Security customers in these regions as well as in other geographies.
- ***Enhance the Group's competitive positioning via continued research and development investment and innovation:*** the competitive environment in which the Group operates requires it to invest appropriately in research and development to keep up with or stay ahead of market trends as well as answer specific customer needs. Specifically, the Group's research and development and product strategies focus on offering an attractive cost structure to customers in emerging markets and represent an innovative competitive alternative in the developed markets where customers are less price sensitive. In addition, the Group believes increasing its software offerings has enabled, and will continue to enable, the Group to stay ahead of market trends as well as answer specific customer needs. For example, the Group's recent introduction of its SDN and NFV solutions has allowed the Group to position itself for the anticipated shift to SDN architecture to increase software sales with SDN controller and applications and NFV solutions. For the year ended 31 December 2017, 8.5% of the Group's revenues related to its software offerings and following the Group's recent introduction of its SDN and NFV solutions, the Company believes this percentage of revenues may accelerate over the next few years.
- ***Continue to increase profitability and cash generation and maintain disciplined cost control:*** The Group constantly works to optimise the product's cost base given that the Group operates in competitive markets such as India. The Group has maintained strong cost control in the past: combined research and development expenses, selling and marketing expenses, and general and administrative expenses remained unchanged between 2016 and 2017 while revenue increased 13% over the same period. The Directors believe the Group has a good commercial momentum with over 70 new wins since the beginning of 2016, which the Directors believe will lead to an increase in profitability and cash generation as the Group continues to grow. As at 30 June 2018, these new wins have generated approximately $170 million in revenue since the beginning of 2016.

The Company believes that its continued growth with existing customers coupled with its new wins and partnerships along with its increased product and solutions offering, including SDN and NFV applications and 5G capabilities, strategically position the Group to drive diversified growth and increase profitability with the existing operational leverage of the Group.

4. HISTORY

The Group was founded as Electronics Corporation of Israel Ltd. in 1961 and undertook an initial public offering on Nasdaq in 1982. The Electronics Corporation of Israel was rebranded as ECI in 1985. The Company was organised and registered in Israel on 25 June 2007 as a limited liability company under the Israeli Companies Law with the name Epsilon 1 Ltd. and with the registered number 51-399572-0. On 2 September 2018, the Company changed its name to ECI Telecom Group Ltd.

The Group began to diversify its product offering with the digitisation of telephone switching that began in the 1970s. The Group developed a specialisation in telephone transmission products, which manipulate the signals carried on telephone lines. The Group developed products that increased the efficiency of local telephone lines.

Subsequently, in the 1990s, the Group developed broadband access products, which operate closer to customer premises ("**Access**").

Starting in 2000, the Group began introducing transmission management products for fibre optic networks and their next-generation asynchronous transfer mode ("**ATM**") switches. The fibre optic cables expanded bandwidth by a ratio of ten-to-one over copper, and the ATM switches merged voice, data and video transmissions. The Group's legacy XDM product was one of the first of these products introduced into the industry.

In 2007, the Group was taken private by Ashmore Investment Management Limited ("**Ashmore**") and the Swarth Group. In 2013, the Swarth Group acquired Ashmore's stake in the Company and Plenus (subsequently renamed Viola Credit) converted its second lien debt position into common shares of the Company.

Beginning in mid-2012, the new management team, led by Darryl Edwards, the Chief Executive Officer, and Giora Bitan, the Chief Financial Officer, successfully turned the Group around by stabilising the business, significantly reducing costs and converting the majority of the Group's customer base to its new technologies and products. In particular, since 2012, the Group's management team have overseen the following key achievements:

- ***Introduced leading-edge transport solutions*:** Since 2007, the Group has invested over $1.0 billion in research and development to develop leading-edge transport products and software communication solutions. These investments contributed to the development of the Group's core Apollo and Neptune transport solutions, which were introduced in 2012 and 2013. The Group continued to add innovative new models and key functionalities from 2014 to 2018. These core products have been deployed across the majority of the Group's customers, across all regions. In addition, the Group has introduced a suite of higher-margin NFV, SDN and cybersecurity software solutions under the Muse™ brand, to position the Group strategically for enhanced future growth as the market evolves. For additional information on the Group's products and services, see "*—Products and Services*."

- ***Restructuring and strategic shift in focus to sustain Access business existing customer base*:** Historically, the Access business was a key component of the Group's strategy, representing nearly 30% of the Group's revenue in 2012. Following the Group's shift in strategic focus beginning in mid-2012, the Group increased profitability by focussing the business of the Group on higher-margin, next-generation transport products and software solutions and shifted its focus for its Access business to sustaining its existing customer base only. Following this strategic shift, the Group's Apollo and Neptune transport solutions today contribute the majority of the Group's revenues, accounting for 75% of the Group's revenues for the six months ended 30 June 2018.

- ***Increased active product cost and operating expense reduction programmes*:** Coupled with the introduction of the Group's core product offerings, the Group improved its active product cost reduction programme, whereby the Group has continuously focused on reducing its overall product cost to maintain its competitiveness, for example, by maintaining an aggressive pricing strategy with its suppliers and reengineering product components as necessary to reduce the overall product costs. In addition, the Group made strategic business changes to reduce its overall operating expenses, including reducing overhead costs. As a result of these various cost and operating expense reduction programmes, between 2011 and 2017 the Group was able to reduce its annual costs and expenses by more than $140 million.

- ***Rapidly expanded addressable market*:** The Company estimates that its product development activities, increased product functionality and focus on next-generation transport products, including its Apollo and Neptune transport solutions, along with its NFV, SDN and cybersecurity solutions and expanded geographical coverage, has expanded the Group's Addressable Market to $25 billion in 2018 (Source: Company estimates including internal analysis derived from Ovum data).

5. PRODUCTS AND SERVICES

The Group provides comprehensive end-to-end optical and packet-optical transport solutions (from Layer 0 to Layer 3) that are scalable across access (i.e. closer to the end-user) to core (i.e. the critical infrastructure of a communication provider). The Group also offers a broad set of service offerings that allow it to gain valuable insight into network and business challenges faced by its customers and to work closely with them in the assessment, planning, deployment and transformation of their networks. The Group's product portfolio addresses the growing demand of Service Providers, Utilities and Governments, and Defence and Security customers for optical and packet transport solutions, as well as NFV, SDN and cybersecurity solutions for wireless backhaul, enterprise cloud connectivity and OTT traffic.

Products

At the heart of the Elastic network lie the Group's five core product offerings: the Apollo transport solution, the Neptune transport solution, NFV-based solutions, SDN orchestration and applications and cybersecurity solutions.

(a) Apollo (Optical transport and OTN switching system)

Apollo is a family of high performing, advanced, transparent and flexible wavelength data transport solutions with configurable optical routing. Apollo enables customers to deploy optical networks that continue lowering the cost per bit, while simultaneously providing packet services, high efficiency end-to-end operations and SDN applications. Apollo accomplishes this through its family of optical transport and switching platforms, which includes both hardware and advanced operations software, that interwork seamlessly to provide scalable, high-density and energy-efficient solutions from the access to the core.

Apollo provides transparent low-latency transport for a broad array of customer interfaces to support their service transport needs. These include Ethernet, Fibre Channel, SDH/SONET and multiple video interfaces, as well as OTN optical pipes.

Apollo supports a full range of platforms, with switching capacity ranging in size from 1 terabit per second ("**Tbit/s**") to 16 Tbit/s and has the potential to increase to 32 Tbit/s in the future. In addition, Apollo has WDM line speeds of 2.5 gigabytes per second ("**GB/s**") to 400 GB/s and has the potential to increase to 1.2 Tbit/s in the future.

The Group also provides its Apollo customers with a fully integrated, intuitive network management system ("**NMS**") that allows network operators to manage their networks in real time. This system is marketed under the Group's "LightSOFT™" brand. LightSOFT provides comprehensive provisioning, maintenance, assurance and performance monitoring across all network technologies, including the management of both optical and packet-optical transport solutions on one platform. With open, standards-based interfaces, LightSOFT easily integrates into the operator's OSS and BSS ecosystem. Moreover, LightSOFT acts as an interim NMS for customers who already wish to incorporate SDN functionality into their current networks.

Apollo accounted for $109 million of the Group's revenue for the year ended 31 December 2017 compared to $78 million for the year ended 31 December 2015, a CAGR of 19%, and $70 million of the Group's revenue for the six months ended 30 June 2018 compared to $33 million for the six months ended 30 June 2017, an increase of 112%.

(b) Neptune (Metro packet-optical transport)

Neptune is a family of Carrier Ethernet, Multiprotocol Label Switching ("**MPLS**") based, multi-service packet-optical transport platforms, providing advanced solutions for the metro. Metro networks must support an extremely diverse set of services and customer needs, ranging from simple point-to-point private connections to the complex multipoint networks (which will be required for 5G backhaul). The Neptune product family, powered by the Group's Elastic MPLS, is able to economically support all of these diverse service needs on a right-size platform that can be grown with in-service expansion options. It supports both Multiprotocol Label Switching—Transport Profile (MPLS-TP) and IP/MPLS (IP multi-protocol label switching) and is expected to support segment routing for 5G networks in the future. Neptune supports this with resilient hardware and advanced operations software. Customers also expect more flexible and dynamic services. To host virtualised network functions ("**VNFs**"), Neptune leverages the Group's NFV platform using the Group's VNF library.

The Neptune product portfolio provides an elastic, multiservice platform capable of meeting all packet transport needs of a network operator across the metro network from access to core. It supports a full range of platforms,

with switching capacity ranging in size from 5 GB/s to 2 Tbit/s and the Group expects it to support 6 Tbit/s and 16 Tbit/s in the future.

Similar to Apollo, Neptune can also be managed by the LightSOFT NMS, allowing network operators to control both optical and packet layers by a single management system.

Neptune accounted for $153 million of the Group's revenue for the year ended 31 December 2017 compared to $83 million for the year ended 31 December 2015, a CAGR of 36%, and $78 million of the Group's revenue for the six months ended 30 June 2018 compared to $72 million for the six months ended 30 June 2017, an increase of 9%.

(c) NFV-based solution

The Group's NFV-based solution is a system that runs a rich library of the Company's and third-party VNFs to create differentiable service value and is integrated within the Neptune packet-optical transport system or on a standalone appliance/box. The Group's NFV solution provides customers with a low-latency service experience, which will allow for multi-access edge computing ("**MEC**") that is expected to be used in 5G, and can be deployed at the network edge, in the access or at the customer premises. It can also deploy VNFs more centrally in metro POPs. The Group markets its NFV-based solutions under its "Mercury" brand. Mercury is fully-compliant with European Telecommunications Standards Institute ("**ETSI**") Management and Orchestration ("**MANO**"), which enables easy operational integration and incorporation of third-party software and provides end-to-end orchestration.

(d) SDN applications

The Group's SDN system is a modular suite of controller and applications that is designed to assist customers to get the most out of their network, create and turn on new services rapidly and ensure the network is available and running at peak efficiency. Powered by a carrier-grade PaaS, the Group's SDN delivers real-time control over a programmable network infrastructure and automates the service and network operations' life cycles. The Group markets its SDN controller under "Muse Orchestration" and the applications under its "Muse applications" brand. Muse applications provide customers with access to the following applications:

- *Muse Network Applications*: Muse Network Applications help to ensure the network infrastructure is in place, running efficiency and smoothly to support services, and includes network manager, network planning and network maintenance functionalities.
- *Muse Service Applications*: Muse Service Applications create different types of services, and deliver and support service instances to specific customers, and includes service manager, service design and policy manager functionalities.

Muse's applications include open APIs, interfaces and SDN controllability to facilitate full functionality in multi-vendor environments, allowing customers the flexibility to choose the right providers for their needs and creating a smooth and seamless platform for their network to operate on.

(e) Cybersecurity solution

The Group also offers a cybersecurity solution. The Group markets its cybersecurity solution under its "Muse Cyber Security Suite" brand. The Muse Cyber Security Suite is an aggregated, web-based system for managing all cybersecurity threats. It relies on two systems:

- *Muse COMPASS*: Muse COMPASS provides an aggregated view of calculated threats from the entire cyber security suite. It delivers threat severity grading based on correlating events from multiple security functions, enabling effective allocation of professional expertise.
- *Muse SHIELD*: Muse SHIELD manages cybersecurity threats at the communication transport nodes, points-of-access to critical infrastructure facilities and feeds COMPASS with events, logs, and Deep-Packet-Inspection ("**DPI**") information. In turn, COMPASS guides SHIELD policies on how to handle various patterns and signatures of packet flows.

Legacy Products

The Group also has two legacy transport solutions in the market:

- *Multi-Service Provision Platforms ("**XDM**")*: Carrier-grade multi-service provisioning platforms ("**MSPP**") simplify the transport of Time-division Multiplexing ("**TDM**") and packet services, while

boosting the flexibility of adding, migrating or removing users. The Group's XDM customer base has been largely migrated to the Apollo and Neptune solutions, although a few customers still utilise this product.

- *Access*: Multiservice Access Node ("**MSAN**") platform provides the full range of advanced broadband services. The Group's primary customer for this legacy product is British Telecom. See also *"—History—Restructuring and strategic shift in focus to sustain Access business existing customer base*."

Services and maintenance

The Group also offers installation, post-sale implementation and training and support-related services as well as design services and consultancy. For the year ended 31 December 2017, 21% of the Group's revenues related to services. Following the initial warranty period, almost all of the Group's customers enter into service agreements, which are generally renewed either annually or every few years. The Directors believe customers will typically contract with their transport solution provider to also provide support services to minimise network risks. In addition, because transport products typically have a general life of over 15 years, coupled with the Group's long-term customer relationships, the Directors believe revenues from services and maintenance are relatively predictable.

6. 5G MOBILE NETWORKS

The Group's five core products are designed to provide its existing and future customers with an integrated transport solution for 5G, enabling operators to scale and build underlying infrastructure for addressing key 5G requirements such as ultra-low latency and hyper-flexible bandwidth, while simplifying and automating operational lifecycles to reduce operating expense. The Group's 5G solution is expected to deliver:

- *Scalable Transport*—by providing the basis for a highly dynamic, distributed 5G architecture. The Group's Apollo and Neptune solutions create a scalable transport solution for access to core connectivity, offering an advanced feature set for mobile backhaul that is environmentally hardened.
- *Adaptive Network Slicing*—by enabling network operators to tailor connectivity based on the use case or service profile. The Group's Elastic network is intended to create and supervise end-to-end network slicing, enabling dynamic latency adaptation and policy-driven bandwidth assignment for ultra-high bandwidth and low latency services, so slices can be customised according to required network performance metrics.
- *High Quality Service Delivery*—to support 5G services and help increase customer satisfaction and loyalty. The Group's SDN applications offered under its Muse software suite is intended to enable a simple and intuitive way to define, profile, monitor and enforce service-level agreements to enable current and future 5G services (for example, services needed for autonomous cars).
- *Integrating MEC*—to allow network operators the ability to control the anticipated increase in data usage while enhancing urban network performance and reducing latency. These NFV-based solutions are intended to enable operators to simply and easily add computing power, speed or capacity while preparing for 5G.
- *Open Architecture*—by providing integration into 5G ecosystems. Since its Elastic network strategy inception, the Group has continually promoted and offers open APIs, interfaces and SDN controllability to work within multi-vendor environments.

7. RESEARCH & DEVELOPMENT

To remain competitive, the Group must continually invest in and enhance its product platforms, adding new features and functionality and aligning with market demand. The Group's research and development strategy emphasises software-enabled programmability, automation and open interfaces, and seeks to promote broad application of the Group's solutions, including in long-haul, metropolitan and access networks and packet-based infrastructures for service delivery. The Group's approach is also focused on designing products that enable network operators to achieve improved economics and efficiency, including with respect to power, space and operating cost, as the capacity and service demands upon their networks increase. The Group's current development efforts are focused upon:

- enhancing and extending the Group's transport solutions, including future-ready and scalable next generation photonics with solutions providing best price per bit ratio, access to core converged packet solutions that provide openness and programmability; everything to everyone ("**E2E**") multi-service packet solution, integrated Layer 1 optics, Layer 2/Layer 3 MPLS with segment routing;

- supporting legacy service migration to next-generation packet infrastructures;
- developing algorithms for network optimisation;
- supporting fibre densification initiatives, such as 5G and fibre deep (the trend in which multiple-system operators ("**MSOs**") push fibre closer to consumers to provide them with better service); and
- developing products that enhance software-based network management, automation and control, service orchestration and NFV and analytics capabilities.

The Group's research and development efforts also include driving product and manufacturing cost reductions across the Group's platforms.

The Group regularly reviews its existing network solutions offering and prospective development of new components, features or products, to determine their fit within the Group's portfolio and broader corporate strategy. The Group also assesses the market demand, technology evolution, prospective return on investment and growth opportunities, as well as the costs and resources necessary to develop and support these products. In order to align the Group's product development investments and solutions offerings closely with market demand, the Group seeks input from customers and promotes collaboration among the Group's product development, marketing and global field organisations. In some cases, where the Group seeks to utilise or gain access to complementary or emerging technologies or solutions, the Group may obtain technology through initiatives with third parties pursuant to technology licences, OEM arrangements and other strategic technology relationships or investments. In addition, the Group participates in industry and standards organisations, and, where it believes it to be appropriate, incorporates information from these affiliations throughout the product development process.

The Group has approximately 690 research and development full time equivalents ("**FTEs**") as at 30 June 2018, located across its five research and development centres (two located in Israel, two in India and one in China). The Group's gross research and development expense was $73.0 million, $70.2 million and $70.9 million for the years ended 31 December 2017, 2016 and 2015, respectively, and $33.5 million and $36.7 million for the six months ended 30 June 2018 and 2017, respectively. For the six months ended 30 June 2018, the Group's research and development expenses were split 36% packet (Neptune), 27% optical (Apollo), 32% new software products and 5% Access. For more information regarding the Group's research and development expense, see Part 8: "*Operating and Financial Review.*"

8. END MARKETS AND CUSTOMERS

The Group sells its product and service solutions directly and through indirect sales channels to the following end markets: Service Providers, Utilities and Governments, and Defence and Security.

Service Providers

The Group provides secured optical transport solutions with a comprehensive end-to-end management system to wireline, wireless, MSO / quad-play and wholesale service providers. Increasing scalability requirements, greater network virtualisation, cloud computing and the rollout of 4/5G networks are trends expected to drive sales in this market. The Group addresses these needs by offering high bandwidth and integrated optical transport solutions through its Apollo and Neptune products, with a focus on embedded cybersecurity solutions and cost optimisation through its SDN and NFV applications.

The Group's solutions focus on the following areas for these customers:

- high bandwidth, high efficiency optical transport and OTN solution;
- flexible high-performance solutions with low latency for cloud networking;
- cost effective transport IP/MPLS and MPLS-TP solutions;
- integrated optical and packet solutions;
- integrated cybersecurity solutions; and
- advanced and comprehensive SDN and NFV applications.

Some of the Group's customers in this market include: Bharti Airtel, IDEA, Vodafone, Telecom Italia, Virgin Mobile, Intelsat, Euronext, Digicel, RCS & RDS, Infracom, Comlink, VEON and Rostelecom.

This market represented 66% of the Group's customer base (by revenue) for the year ended 31 December 2017.

Utilities and Governments

The Group's customers also include a variety of utility providers (power, water, gas, oil), transportation, government and municipalities, and NRENs. The compatibility of the Group's solutions with legacy systems and "Elastic" flexibility has led to an increasing number of new wins in this market over the past two years. Network modernisation, smart grid, increasing need for network efficiency and enhanced security regulations are trends expected to drive sales in this market in the short-term. Given the Group's track record serving the Defence and Security market, the Group also has a strong competitive advantage in cybersecurity solutions for these strategic customers (who similarly place a strong importance on cybersecurity for their networks), as the Group can embed cybersecurity solutions fully within its products remotely. The Group's Muse Cyber Security Suite manages cybersecurity threats at the communication transport nodes points-of-access in the communication network (as opposed to traditional firewalls that prevent cyberattacks only at point of access by the ultimate user).

The Group's solutions focus on the following areas for these customers:

- addressing network modernisation while maintaining complete control of performance;
- providing a risk-free transition from TDM (a legacy network) to Packet with mission critical packet optical solutions and service assurance; and
- including a cyber-solution tailored for the Utilities and Governments market.

Some of the Group's customers in this market include: REN, EnBW, Deutsches Forschungsnetz, and Beijing Subway, SURFnet, Amprion, Endesa, Electric Company of Israel, CEPM, ELES.

This market represented 17% of the Group's customer base (by revenue) for the year ended 31 December 2017.

Defence and Security

Since the Group's establishment in 1961, the Group has continued to maintain a strong relationship with a variety of Defence and Security customers. As Defence and Security customers have begun to modernise their networks, their data usage has increased substantially. With an emphasis on speed, reliability and security, Defence and Security customers have unique telecommunications needs that are expected to increase as defence and security activities use increasingly advanced technologies.

The Group's solutions focus on the following areas for these customers:

- know how-the knowledge to develop and operate a defence force network;
- trust-the Group has maintained strong relationships with its Defence and Security customers since its inception in 1961;
- tailored solutions targeted to meet Defence and Security customers' needs; and
- a complete turn-key solution that includes the Group's equipment as well as a variety of other third-party equipment developed specifically for this market.

The Group's customers in this sector are located in approximately ten different countries.

This market represented 17% of the Group's customer base (by revenue) for the year ended 31 December 2017.

9. OPERATIONS

Global Reach

The Group had operations in more than 70 countries, more than 25 sales and services centres as well as research and development centres located in Israel, China and India as at 31 December 2017. The Group's headquarters is located just outside Tel Aviv, Israel and the Group also has regional headquarters in the US, Germany, Russia, the Philippines, India and Costa Rica and has service engineers in all of these geographical locations. As a result of its global reach, the Group has the ability to support its customer base locally and provide end-to-end services and integrated solutions.

Global Supply Chain

The Group has streamlined and enhanced its global supply network for flexible delivery of products to meet customer needs. Since 2014, the Group has been able to cut delivery times significantly, with over 80% of

orders in 2017 ready to ship in under five weeks from the date the purchase order was received. The supply network is backed by long-term master sale agreements with two leading EMS suppliers, Flex and Eastcom:

- *Flex:* The Group has outsourced its manufacturing facilities to Flex since 2008 as part of Flex's acquisition of the Group's manufacturing facility in Ofakim, Israel. Flex has also manufactured the products for ECI Telecom Inc. in the United States. The Group's master sale agreement with Flex in Israel expires in 31 March 2019.
- *Eastcom:* Eastcom, based in Hangzhou, China, has been manufacturing for the Group for over 20 years. The Group's master sale agreement with Eastcom expires in 31 December 2020, with the option to extend for an additional two years upon request by the Group.

In addition, the Group uses a variety of suppliers for components used in the Group's products and solutions, including Acacia, Lumentum, Accelink and Oclaro for its optical devices and Mellanox, MicroSemi, Intel and Broadcom for its semiconductors. Furthermore, the Group regularly evaluates other suppliers and sites for production and manufacturing based on customer needs.

10. SALES AND MARKETING

Sales

The Group sells directly and through indirect channels.

(a) Direct sales

The Group maintains 13 sales offices around the world. For the year ended 31 December 2017, 89% of the Group's revenue was generated through direct sales.

As at 30 June 2018, the Group's direct sales team is made up of sales personnel responsible for maintaining long-term relationships with the Group's customers. In addition, within each geographic area, the Group maintains specific teams, personnel or agents that focus on a particular region, country, customer or market vertical. As at 30 June 2018, these teams (which consist in total of 225 FTE professionals) include sales management, account salespeople, and sales engineers, as well as project managers and commercial management personnel, responsible for maintaining a close and consultative relationship with customers.

(b) Indirect sales

The Group also maintains a global channel programme that involves partnerships with resellers, systems integrators and other third-party distributors, who market and sell the Group's products and services. Since the beginning of 2018, the Group has developed 20 new partnerships. For the year ended 31 December 2017, 11% of the Group's revenue was generated through indirect sales. Partnerships accounted for approximately 40% of the Group's revenue from the Utilities and Government market.

Some of the Group's strategic third-party channel partners include 3M, ACS, ACTS, Asseco, Balton, Ceragon, CSR, Dimension Data, Ericsson, Jasco, Kapsch, Kellner Telecom, KGPCo, Ntegrator, Rincon Technology, Siemens, Servitron, Vardata and Verint.

The Group seeks opportunities to leverage its partners' relationships to address new customer segments and new geographies, while reducing the financial and operational risk of entering these additional markets.

Strategic Partnership

The Group recently entered into a global OEM strategic agreement with Ericsson, a worldwide leading provider of telecommunications technology to cooperate together globally on providing Elastic optical transport for 5G network solutions. The Group had previously entered into a regional purchase agreement with Ericsson in 2016. The Group is currently working on a variety of opportunities with Ericsson.

As at 30 June 2018, the partnership has successfully won projects in North America, Denmark, Greece and Brazil. In these projects, the Group provides the transport solutions and Ericsson provides installation and managed services.

Additionally, the Group is integrating its software solution into Ericsson's ecosystem in order to provide a complete solution offering.

The Group believes that this partnership is a good fit for the Group as Ericsson has strong global customer relationships and is able to provide the Group with the sales force needed to penetrate these customers as well

as other customers in other geographies in a more cost-efficient manner. In addition, the Directors believe that this partnership will allow the Group to offer a complete optical transport solution that supports today's market and will continue to support the expected shift to 5G.

Marketing

To support the Group's sales efforts, the Group engages in marketing activities to generate demand for its products and services, with a focus on direct customer offerings. The Group's marketing strategy is highly focused on building its brand awareness to create customer preference for the Group, engaging in thought leadership programmes to illustrate how the Group's innovations solve customer business problems and enabling its sales teams to drive customer adoption of the Group's solutions. The Group's marketing team supports its sales efforts through a variety of activities, including direct customer interaction, account-based marketing campaigns, portfolio marketing, industry events, media relations, industry analyst relations, social media, trade shows, the Group's website and other marketing vehicles for the Group's customers and channel partners.

The Group's solutions have been recognised at various industry showcases, including:

- the 2018 NGON & Optical DCI Award for Best Multi-Layer SDN Controller;
- finalist at the 2017 Leading Lights Awards for "Outstanding, Transformative Strategic Vision";
- the 2017 UTC Impact Award for Software—LightSEC™;
- the 2017 NGON & Optical DCI Award for Test & Measurement—LightPULSE™;
- the 2017 CIO Applications Award for 1 of the top 25 Utility Tech Vendors;
- finalists at the 2017 Network Transformation Awards for Best Security Solution, Best Service for Developing World, Best Validation/Certification Program and Culture & Diversity;
- finalist at the MEF 2017 Awards for CE2.0—Neptune Orchestration—lead of MEF3.0 project group; and
- finalist at the 2017 AfricaCom Awards for Best NFV Solution.

In addition, the Group's customer support services have maintained strong service levels, with over 95% of major service requests closed within 30 days from January 2017 to March 2018 and only 2.5% of field cases requiring research and development intervention. Furthermore, in September 2016, Ipsos Market Research conducted a survey of 170 respondents from the Group's top 50 customers before the survey, including 43 face-to-face interviews with 19 of the Group's customers across EMEA, LATAM, APAC, Israel and India including six of the Group's largest customers by revenue in the financial year ended 31 December 2016 (the "**Gold Club Customers**"). 91% of the Group's Gold Club customers interviewed rated the Group "very good-excellent" in overall satisfaction in the survey.

11. CONTRACTS

Generally, the Group makes sales pursuant to purchase orders placed by customers under long-term framework agreements that govern the general commercial terms and conditions of the sale of the Group's products and services. These agreements do not obligate customers to purchase any minimum or guaranteed order quantities and result in a sale only once a purchase order has been placed by the customer for a specific product or service.

12. COMPETITIVE ENVIRONMENT

Although only a few companies provide end-to-end network solutions similar to the Group's solutions, competition among communications network solution vendors remains intense on a global basis. The markets in which the Group competes are characterised by rapidly advancing technologies, frequent introduction of new networking solutions and aggressive selling efforts, including significant pricing pressure to displace incumbent vendors and capture market share. With respect to the Group's Service Providers and Utilities and Governments markets the Group has a number of competitors. In terms of pure optical systems, similar to the Group's Apollo transport solution, the Group's main competitors include: Ciena, Huawei, Coriant, Infinera, Nokia and Adva. In terms of packet-optical systems, similar to the Group's Neptune transport solution, the Group's main competitors include: Nokia, Huawei, Ciena, and Cisco. Finally, in terms of providing a complete end-to-end network solution similar to the Group, the Group's closest competitors are: Ciena, Nokia and Huawei. As compared to the Group, many of these competitors have substantially greater financial, operational and marketing resources, significantly broader product offerings, and more established relationships with service

providers and other customer segments. Because of their scale and resources, they may be perceived to be a better fit for the procurement or network strategies of larger network operators.

With respect to the Group's Defence and Security market, however, the Group believes its network solution is one of the best offered in this market given its cybersecurity solutions.

The principal competitive factors applicable to the Group's markets include:

- product functionality, speed, capacity, scalability and performance;
- price, cost per bit and total cost of ownership of the Group's solutions;
- incumbency and strength of existing business relationships;
- ability to offer comprehensive networking solutions, consisting of hardware, software and services;
- product development that satisfies customers' immediate and future network requirements;
- flexibility and openness of platforms, including ease of integration, interoperability and integrated management;
- ability to offer solutions that accommodate a range of different consumption models;
- space and power considerations;
- manufacturing and lead-time capability; and
- services and support capabilities.

The Group expects the competition in its industry to continue to broaden and to intensify as network operators pursue a diverse range of network strategies. As these changes occur, the Group expects that its business will overlap more directly with the businesses of additional networking solution suppliers, including IP router vendors, data centre switch providers and other suppliers or integrators of networking technology traditionally geared toward different network applications, layers or functions. The Group may also face competition from system and component vendors, including those in its supply chain, who develop networking products based on off-the-shelf or commoditised hardware technology, referred to as "white box" hardware, particularly where a customer's network strategy seeks to emphasise deployment of such product offerings or to adopt a disaggregated approach to the procurement of hardware and software.

13. PATENTS, TRADEMARKS AND OTHER INTELLECTUAL PROPERTY RIGHTS

The success of the Group's business and technology leadership is significantly dependent upon its proprietary know-how, trade secrets and internally developed technology. The Group relies upon the intellectual property protections afforded by patents, copyrights, trademarks, and trade secret laws to establish, maintain and enforce rights in the Group's proprietary technologies and product branding. Although no single patent or patent family is material to the Group's business, the Group regularly files applications for patents and holds a significant number of patents in Europe, the United States and other countries where the Group does business.

As at 30 June 2018, the Group owned 157 patents, with the majority granted in the United States, as well as some in other jurisdictions. As at 30 June 2018, the Group had applied for 2 additional patent applications, one in the United States and the other in Europe, both of which are pending.

The Group faces risks in safeguarding and protecting its patents, trademarks and other intellectual property rights. See Section 22 of Part 1: "*Risk Factors*" for more information.

14. EMPLOYEES

As at 30 June 2018, the Group had a global workforce consisting of 1,650 FTEs. Labour laws in Israel (applicable to employees but not to independent contractors) provide minimum standards regarding annual paid and unpaid leave, sick leave, maternity leave and other provisions regarding leave from work, severance pay, pension contributions and other terms of employment. The Group contributes to pension schemes (or similar type schemes) for its employees in Israel, Argentina, Brazil, Chile, China, Colombia, Costa Rica, France, Germany, India, Mexico, the Philippines, Poland, Russia, the United States, the United Kingdom and Vietnam.

Employees by function (full time)

The following table details the breakdown of the Group's FTEs by function as at 30 June 2018 and 31 December 2015, 2016 and 2017:

	As at 30 June	As at 31 December		
	2018	2017	2016	2015
Research & Development	42%	43%	44%	43%
Customer Service	20%	18%	18%	18%
Logistics & Engineering	9%	10%	9%	9%
General & Administration[1]	12%	12%	12%	13%
Global Sales & Marketing	17%	17%	17%	17%
Total	**100%**	**100%**	**100%**	**100%**

(1) Includes executive management, finance, human resources, IT and legal.

Employees by geography (full time)

The following table details the breakdown of the Group's FTEs by geography as at 30 June 2018 and 31 December 2015, 2016 and 2017:

	As at 30 June	As at 31 December		
	2018	2017	2016	2015
Israel	46%	50%	52%	54%
India	27%	25%	22%	19%
EMEA	7%	6%	7%	7%
RoW	20%	19%	19%	20%
Total[1]	**100%**	**100%**	**100%**	**100%**

(1) Numbers may not sum due to rounding.

Since 2016, the Group's Israeli employees have been represented by the Histadrut (the largest trade union federation in Israel) and the Group's management has been negotiating with representatives from the Histadrut for the purpose of concluding a collective bargaining agreement, which would apply to the Group's Israeli employees and which would regulate matters regarding certain employee rights and benefits and other organisational and labour matters. While the Group is expecting to reach an agreement in the coming months, negotiations are still ongoing. In January 2018, during the negotiation period, the Group's employees held a three-day strike primarily in reaction to certain employee layoffs announced by the Group in January 2018, following which an agreement was reached with the Histadrut regarding the number of employees to be laid-off and increased redundancy pay to such employees based on a formula set forth in the agreement.

The Group's employees located in Germany are also members of a workers council.

Other than the employees located in Israel and Germany, none of the Group's other employees are represented by a labour organisation or union or covered by collective bargaining agreements.

Other than as described above, the Group has not experienced a labour-related work stoppage in recent years. The Directors consider the Group's relations with its employees to be good.

15. PROPERTIES

The Group has 35 offices worldwide. The Group's offices are located in leased premises. Individual office leases vary as to their terms, rental provisions and expiration dates. The Group's headquarters are located outside Tel Aviv, Israel and it has regional headquarters in India, the United States (Florida), Germany, Russia and the Philippines. In addition, its principal research and development facilities are located in Israel, India and China.

The Group's headquarters (including one of its research and development facilities in Israel) consists of approximately 22,550 square metres of leased office space. The lease for this facility expires on 23 September 2023, with extension by up to two five-year options upon request of the Group.

The Group's regional headquarters in India consists of approximately 727 square metres of leased office space. The lease for this facility expires on 31 May 2022, and can be extended upon request of the Group. The Group's regional headquarters in the United States consists of approximately 2,260 square metres of leased

office space. The lease for this facility expires on 31 March 2020. The Group's regional headquarters in Germany consists of approximately 1,870 square metres of leased office space. The lease for the facilities expire on 31 December 2018, and can be extended upon request of the Group. The Group's regional headquarters in Russia consists of approximately 560 square metres of leased office space. The lease for this facility expires on 31 July 2019. The Group's regional headquarters in the Philippines consists of approximately 750 square metres of leased office space. The lease for this facility expires on 31 October 2018 (currently in renewal process for two additional years).

The Group's other research and development facility in Israel consists of approximately 2,370 square metres of leased office space. The lease for this facility expires on 30 April 2019 and upon expiration the Group plans to move this research and development facility to a new location in Beer Sheva, Israel. The Group has two research and development facilities in India, one in Mumbai, consisting of approximately 1,330 square metres of leased office space, and the other in Bangalore, consisting of approximately 2,750 square metres of leased office space. The lease for each facility expires on 15 November 2019 and 30 April 2019, respectively, and each can be extended upon request of the Group. In addition the Group has recently signed a new lease for additional space in its Mumbai facility, which expires on 28 February 2019. The Group's research and development facility in China consists of approximately 3,600 square metres of leased office space. The lease for this facility expires on 31 December 2018, which the Group anticipates renewing at the end of the lease term.

Certain of the Group's leases have a term as short as one year while others are indefinite in length. Rent on the majority of the Group's offices is paid monthly in advance. The Group also has offices or other facilities in Argentina, Brazil, Chile, Columbia, Costa Rica, France, Germany, Indonesia, Italy, Mexico, Poland, Russia, Spain, Togo, Ukraine, the United Kingdom and Vietnam.

In addition to the Group's leased premises, the Group owns two mortgaged and undeveloped properties, one located in Givat Shmuel, Israel and the other in Petach Tikva, Israel (both of these properties are located adjacent to the Group's headquarters). Flex is the mortgagee of both mortgages, which relate to the Group's manufacturing services agreement with Flex in Israel to secure all payments Flex is entitled to under the agreement, up to an amount of $10 million plus interest and expense, with respect to the Givat Shmuel property, and $5 million plus interest and expense, with respect to the Petach Tikva property. The Group is currently engaged with these two municipalities to increase the building rights on each of these properties for potential future development. As at 30 June 2018, these properties had a book value of $22 million and were valued by a third party appraiser at approximately $30 million, with the potential increase in value to approximately $60 million in the next two to three years if zoning approvals are granted.

16. ENVIRONMENT

The Group believes that due to the nature of its business it does not have any material environmental compliance costs or environmental liabilities.

17. INSURANCE

The Group maintains insurance coverage for property damage or loss, professional liability, fiduciary liability and commercial general liability as well as business interruption insurance and terror coverage. The Group also maintains business travel insurance and directors' and officers' insurance. The Group believes that its current insurance coverage is appropriate for its business, in respect of its level and applicable excesses and deductibles. The Group does not have any material outstanding insurance claims.

18. DIVIDEND POLICY

The Company has not adopted a dividend policy with respect to future dividends, and it does not currently intend to pay cash dividends on the Shares. Under the Israeli Companies Law, unless otherwise approved by a court, the Company can distribute dividends only from "profits" (as defined by the Israeli Companies Law), and only if there is no reasonable concern that the dividend distribution will prevent it from meeting its existing and foreseeable obligations as they become due. Subject to the foregoing, any future determination related to the dividend policy will be made at the discretion of the Board and will depend upon, among other factors, the Group's results of operations, financial condition, capital requirements, contractual restrictions, business prospects and other factors the Board may deem relevant.

19. LEGAL PROCEEDINGS

See Section 13 of Part 10: "*Additional Information*".

20. REGULATORY MATTERS

The Group is subject to the laws and regulations of a number of countries covering a wide variety of areas affecting international transactions, including data protection and privacy, consumer protection, export controls, anti-corruption legislation, labour laws, laws related to internet commerce, and information technology.

Part 6
DIRECTORS, SENIOR MANAGERS AND CORPORATE GOVERNANCE

1. DIRECTORS

The following table lists the names, positions and ages of the Directors as at the date of this Registration Document:

Name	Age	Position
Franco Bernabè	70	Independent Chairman
Darryl Edwards	57	President and Chief Executive Officer
Giora Bitan	64	Executive Vice President and Chief Financial Officer
Andrew MacLeod	61	Senior Independent Non-Executive Director
Stanley B. Stern	61	Non-Executive Director
Dafna Sharir	49	Independent Non-Executive Director
Tido van Wieringen	48	Independent Non-Executive Director

The business address of each of the Directors is 30 Hasivim Street, Petach-Tikva 4959388, Israel.

The management experience and expertise of each of the Directors is set out below. All Directors were appointed to the Board on 16 September 2018.

1.1 Franco Bernabè (Independent Chairman)

Mr Bernabè is the current Chairman of Nexi S.p.A. and director of Nexi Payment S.p.A., a market leading Italian bank provide certain banking and clearing and settlement services. Mr Bernabè previously served as CEO and Chairman of Telecom Italia, a leading telecommunications company in Italy. Mr Bernabè is a board member and former Chairman of GSMA Ltd., a representative body of mobile operators and other stakeholders in the telecommunications industry. Mr. Bernabè also serves as Chairman and Founder of FB Group, a private investment company. Mr Bernabè is also a senior advisor to Barclays Bank PLC.

Mr Bernabè is the former CEO of Eni S.p.A., one of the leading oil companies in Italy and the former vice Chairman of Rothschild & Co. Europe. Mr Bernabè was also formerly a member of the board and Chairman of the Audit Committee of PetroChina, a member of the International Council of JP Morgan, Vice chairman of Unindustria, a member of the Executive Committee of Confindustria and a member of the European Roundtable. He has also served as an independent director of several non-profit organisations, including the Council on Foreign Relations and the Peres Center for Peace. Mr Bernabè was Italy's Special Representative for the reconstruction of Kosovo in the year 2000, Chairman of Palaexpo, the leading cultural institution of the city of Rome, Chairman of MART-Modern Arts Museum of Trento and Rovereto (2004-2014), Chairman of La Biennale di Venezia (2001-2003) and Vice-President of Roma Europa Festival (2006-2008). Mr Bernabè was knighted in 2011 by the President of the Italian Republic.

1.2 Darryl Edwards (President and Chief Executive Officer)

Mr. Edwards assumed the role of President and Chief Executive Officer of the Group on 1 August 2012. Mr. Edwards has more than 30 years of experience in the telecom industry, most recently as the Chairman for MACH, and telecom advisor to Warburg Pincus. Previously, Mr. Edwards was Chief Executive Officer of AIRCOM International. Mr. Edwards spent 17 years at Nortel Networks (now Nortel) in several executive positions, including Chairman of the Board of Directors for Nortel's interests in Turkey, President of EMEA and of Global Sales. Mr. Edwards began his career in GEC Telecommunications (later GPT), where he spent 13 years in many management positions. Mr. Edwards previously served on the UK Government Broadband Stakeholders Group and the Information Age Partnership.

1.3 Giora Bitan (Executive Vice President and Chief Financial Officer)

Mr. Bitan re-joined the Group as Executive Vice President and Chief Financial Officer in 2010, having previously served in this position from 2002 to 2007. Mr. Bitan has over 35 years of experience and leadership in high technology. From 1982-1996, Mr. Bitan worked at Scitex Corporation, then one of Israel's leading Nasdaq-listed technology firms, including nine years as the Chief Financial Officer. Mr. Bitan has also spent part of his career as a venture capitalist. From 1997- 2002, Mr. Bitan was a General Partner at Giza Venture Capital and more recently, he was the Managing General Partner of Poalim Venture Partners. Mr. Bitan holds an MBA from UCLA and a BA in Economics and International Relations from the Hebrew University in Jerusalem.

1.4 Andrew MacLeod (Senior Independent Non-Executive Director)

Mr. MacLeod has served on the board of IDEX ASA, a Norwegian biometrics company listed on the Oslo Stock Exchange since 2014. Mr. MacLeod also serves on the board of Gfinnity plc, an eSports company listed on AIM, a market operated by the London Stock Exchange. Mr. MacLeod was formerly a board member of Vodafone Australia and Verizon Wireless and the Regional Technology Director for Vodafone plc.'s Africa, Middle East and Asia-Pacific region. Previously, Mr. MacLeod was also the Chief Technology Officer at Vodafone plc. for Africa, Middle East and Asia & Pacific region, and Group Chief Networks Officer. Mr. MacLeod is a Fellow of the Royal Academy of Engineering and a Chartered Engineer (metals materials and mining), holds a Masters of Business Administration from Warwick Business School and a Master of Arts in Materials Science from Keble College, Oxford University.

1.5 Stanley B. Stern (Non-Executive Director)

Mr. Stern has over 30 years of experience as an investment banker. He is currently a Managing Partner of Alnitak Capital Partners, a strategic advisory and merchant investment bank with a focus on technology. Mr. Stern also serves as the Chairman of SodaStream International Ltd., a global merchant of water carbonation systems and listed on the Tel Aviv Stock Exchange ("**TASE**") and Nasdaq, and the chairman of Audiocodes Limited, a global provider of voice over internet protocol infrastructure. Mr. Stern also serves as a director of Ormat Technologies Inc., a publicly traded company on the New York Stock Exchange and TASE, which provides renewable power and energy solutions. Mr Stern also holds directorships in Foamix Pharmaceuticals, a Nasdaq-listed pharmaceutical company and Esko Bionics, a Nasdaq-listed provider of solutions in the field of robotic exoskeletons. Mr. Stern has a Masters of Business Administration in Finance from Harvard University Graduate School of Business and bachelor degrees in Economics and Accounting from City University of New York, Queen College.

1.6 Dafna Sharir (Independent Non-Executive Director and External Director)

Ms. Sharir serves as a director of Frutarom Industies, Inc., a publicly traded company on the TASE and the London Stock Exchange that is a global producer of flavours and fine ingredients for consumer goods. Ms Sharir is also a director of Gilat Satellite Networks Ltd, a publicly traded company on TASE and the London Stock Exchange, which develops and sells very-small-aperture terminal satellite ground stations and related equipment, and a director of Ormat Technologies Inc., a publicly traded company on the New York Stock Exchange and TASE which provides renewable power and energy solutions. Ms. Sharir formerly served as Senior Vice President of Investments of Ampal Corp. between 2002 and 2005. Ms. Sharir has worked as an Independent Consultant in the areas of mergers and acquisitions and business development for a number of years. Ms. Sharir also previously served as Director of Mergers and Acquisitions at Amdocs and as a tax advisor with Cravath, Swaine & Moore in New York. Ms. Sharir holds bachelor degrees in Economics and Law from Tel Aviv University, a Masters in Tax Law from the New York University, and a Masters of Business Administration from the European Institute of Business Administration (INSEAD), in Fontainebleau, France.

1.7 Tido van Wieringen (Independent Non-Executive Director and External Director)

Mr. van Wieringen is a co-founder of Serra Partners, an Amsterdam based financial advisory firm and a co-owner and Chief Business Development Officer of DNGB B.V., a private Netherlands based financial technology company providing a platform for the origination and servicing of institutional investor fund programs of Dutch residential ground leases. Mr. van Wieringen is also a Credit Committee Member of Robeco Investment Management, an international asset manager. Mr. van Wieringen started his career at ABN AMRO, one of the largest banks in the Netherlands servicing retail, private and corporate banking clients. At ABN AMRO, Mr. van Wieringen held various positions in Amsterdam and New York in global debt capital markets. Mr. van Wieringen holds a Master's Degree in Economics from the University of Amsterdam.

2. SENIOR MANAGERS

In addition to the Executive Directors listed above, the following members of the Company's current senior management team (each a "**Senior Manager**") are considered relevant to establishing that the Company has the appropriate experience and expertise for the management of its business:

Name	Age	Position
Jimmy Mizrahi	53	Executive Vice President—Portfolio Business
Fernando Valdivielso	50	Executive Vice President—Global Sales & Marketing
Boaz Yardeni	61	Executive Vice President—Global Technology

The business address of each Senior Manager is 30 Hasivim Street, Petach-Tikva 4959388, Israel.

The management experience and expertise of each Senior Manager is set out below.

2.1 Jimmy Mizrahi (Executive Vice President—Portfolio Business)

Mr. Mizrahi was appointed Executive Vice President of the Group's Portfolio Business in 2013. In his previous role, Mr. Mizrahi led the Optical Networking Line of Business at the Group and was responsible for the launch of the Apollo product line. Prior to that, Mr. Mizrahi was the head of the product lifecycle management team of next generation optical product line and previously worked in Strategic Marketing at the Group, specialising in alternative carrier applications for utilities and cable operators worldwide. Prior to joining the Group, Mr. Mizrahi held positions at Tadiran Telecom and Enavis Networks, where he designed network solutions for global and cellular applications. Mr. Mizrahi has 25 years of experience in the telecoms market in the areas of product management, product marketing, strategic marketing, salesman and business development. Mr. Mizrahi holds a Bachelors degree in Electronic Engineering from Tel-Aviv University, Israel.

2.2 Fernando Valdivielso (Executive Vice President—Global Sales and Marketing)

Mr. Valdivielso has more than 25 years of experience in the telecommunications industry in a variety of senior executive positions. Mr. Valdivielso joined the Group in 2015 and was appointed the Executive Vice President of Global Sales and Marketing in January 2018. Previous positions have included responsibility for sales, account management and customer operations for several multinationals such as AT&T, Lucent, Samsung, Nortel and NSN. Mr. Valdivielso holds the qualification of Telecommunication Engineer from the Universidad Politécnica de Madrid, Spain, an Executive MBA from the IE Business School in Madrid, Spain, and participated in the Executive Management & Leadership Program at the London Business School's Global Business Consortium.

2.3 Boaz Yardeni (Executive Vice President—Global Technology)

Mr. Yardeni was appointed Executive Vice President of Global Technology in October 2017. Mr. Yardeni joined the Group in late 2007 as Global Chief Information Officer and in January 2014 was appointed Executive Vice President of Customer Operations & Services, with heavy involvement in corporate-wide business improvement initiatives. Prior to joining the Group, Mr. Yardeni filled several senior positions during his eight years at Comverse and twelve years at Tadiran, including Head of Customer Support & Deployment, Head of Engineering, Head of Corporate Quality, VP Operations and Global CIO. Mr. Yardeni holds a B.Sc. in Industrial Management and Information Systems from the Israel Institute of Technology, and served in a technical advisory capacity with several start-up companies.

3. CORPORATE GOVERNANCE

The Board is committed to implementing the highest standards of corporate governance appropriate for a company of its size and status. The Board currently complies with the corporate governance regime as a private company under Israeli law.

The Company intends to adopt corporate governance principles and practices that address various matters under the UK Corporate Governance Code and the Israeli Companies Law as further described below. The Directors believe the Board and the Committees once implemented, will act in the best interests of the Company and all its Shareholders, and will provide appropriate corporate governance and experience. The Board believes that the Executive Directors (as defined below) will ensure stability and continuity, as well as relevant experience and expertise, and that the Non-Executive Directors (as defined below) will bring strong judgement and considerable knowledge to the Board's deliberations.

3.1 The Board

(a) Board Composition

(i) UK Corporate Governance Code

The UK Corporate Governance Code recommends that at least half of the board of directors of a UK-listed company, excluding the chairman, should comprise non-executive directors determined by the board to be independent in character and judgment and free from relationships or circumstances, which may affect, or could appear to affect, the director's judgment.

The Board consists of seven members: the Chairman; Franco Bernabè, two executive Directors, Darryl Edwards and Giora Bitan (the "**Executive Directors**"), and four Non-executive Directors, Andrew MacLeod, Stanley B. Stern, Dafna Sharir and Tido van Wieringen (the "**Non-Executive Directors**").

Stanley B. Stern is not regarded as an independent director as he has been nominated as a Director of the Company on behalf of the Major Shareholder in connection with the right of the Major Shareholder under the Relationship Agreement.

Stanley B. Stern and Dafna Sharir are both independent non-executive directors of the board of directors of Ormat Technologies Inc. The Board has determined that, notwithstanding this cross-directorship, Dafna Sharir is independent in character and judgement and that her cross-directorship will not affect her ability to present an objective, rigorous and constructive challenge to the assumptions and viewpoints presented by management and the Board.

Accordingly, the Company regards all Non-Executive Directors other than Stanley B. Stern to be independent for purposes of the UK Corporate Governance Code. Therefore, the Company considers that its Board currently meets the composition recommendations under the UK Corporate Governance Code.

(ii) Israeli Companies Law

Under the Israeli Companies Law, companies organised under the laws of the State of Israel that are "public companies," must appoint at least two external directors who meet the qualification requirements in the Israeli Companies Law (as set out in section 3.2 of Part 10: "*Additional Information*"). Were the Company to become a public company, it would intend to nominate Dafna Sharir and Tido van Wieringen as External Directors for compliance with the Israeli Companies Law.

The appointment of the external director nominees is subject to approval by the shareholders within three months after the date of becoming a public company. The Company intends that, if it were to become a public company, it would convene an extraordinary meeting of its Shareholders for the purpose of approving the appointment of Dafna Sharir and Tido van Wieringen as External Directors of the Company.

The Israeli Companies Law also requires the board of a public company to determine the minimum number of directors who are required to have accounting and financial expertise (as defined in regulations promulgated under the Israeli Companies Law); one of such persons must be an External Director. In determining the number of directors required to have such expertise, the board of a public company must consider, amongst other things, the type and size of the company and the scope and complexity of its operations.

The Board has determined that the minimum number of its Directors required to have accounting and financial expertise (as defined regulations promulgated under the Israeli Companies Law) should the Company become a public company is one and has determined that Tido van Wieringen has accounting and financial expertise, as required under the Israeli Companies Law and that Dafna Sharir has the requisite professional qualifications as required under the Israeli Companies Law.

(b) The Chairman

(i) UK Corporate Governance Code

The UK Corporate Governance Code recommends that a chairman meet the independence criteria set out in the UK Corporate Governance Code on appointment. The Company's Chairman, Franco Bernabè, is independent and complies with this recommendation.

(ii) Israeli Companies Law

Under the Israeli Companies Law, the chairman of the board of directors generally may not serve in any other position of the Company (subject to limited exceptions) or a corporation controlled by the Company (excluding service as the chairman or a director in such controlled company). The Company's Chairman, Franco Bernabè, does not serve in any other position of the Company and the Company therefore complies with this requirement.

(c) Senior Independent Director

The UK Corporate Governance Code recommends that the board appoint one of the independent non-executive directors to be the senior independent director. The Company has appointed Andrew MacLeod as the Senior Independent Director of the Company and the Company therefore complies with this recommendation.

3.2 Board Committees

The Board intends to establish an audit and risk committee, a nomination committee and a remuneration committee as described below. If the need should arise, the Board may set up additional committees as appropriate.

(a) Audit and risk committee

The Company expects that the audit and risk committee's role would be to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Group's annual and half year financial statements and accounting policies, internal and external audits and controls, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal audit, internal controls, whistleblowing, cybersecurity controls, and readiness and fraud systems in place within the Group. It is also expected that the audit and risk committee would be responsible for the fulfilment of certain duties listed under the Israeli Companies Law and would meet at least four times a year.

Composition and membership

The UK Corporate Governance Code recommends that an audit and risk committee be comprised of at least three directors, all of whom are independent non-executive directors. It also recommends that at least one member should have recent and relevant financial experience. It further recommends that the chairman should not be a member of the audit and risk committee unless the board of directors specifically decides that this is required.

Under the Israeli Companies Law, a public company is required to appoint an audit and risk committee (but not a risk committee). The audit and risk committee must be comprised of at least three directors, including all of the external directors, one of whom must serve as chairman of the committee. In addition, the audit and risk committee of a publicly traded company must consist of a majority of independent directors, within the meaning of the Israeli Companies Law. In general, an "independent director" under the Israeli Companies Law is generally defined as either (i) an external director or (ii) a director who meets the qualifications for being appointed as an external director, except for the requirement for accounting and financial expertise or professional qualifications and who generally has not served as a director of the company for a period exceeding nine consecutive years. Pursuant to the Israeli Companies Law, the audit and risk committee may not include the chairman of the Board, a Controlling Shareholder or a relative of a Controlling Shareholder, a Director employed by or providing services on a regular basis to the Company, to a Controlling Shareholder or to an entity controlled by a Controlling Shareholder or a Director who derives most of his or her income from a Controlling Shareholder, referred to as a "Controlling Shareholder Director".

The Board expects that its audit and risk committee would be chaired by Tido van Wieringen and its other members would be Dafna Sharir and Andrew MacLeod.

(b) Nomination committee

The Company expects that the nomination committee would assist the Board in reviewing the structure, size, performance and composition of the Board. It is expected that it would also be responsible for reviewing succession plans for the Directors, including the Chairman and Chief Executive and other senior executives and would meet at least two times a year.

Composition and membership

The UK Corporate Governance Code recommends that a majority of the nomination committee be independent non-executive directors. There are no equivalent requirements under the Israeli Companies Law to have a nomination committee, although any board committee must include at least one member that is an external director under Israeli law.

The Company expects that its nomination committee would be chaired by Franco Bernabè and its other members would be Stanley B. Stern and Tido van Wieringen.

(c) Remuneration committee

The Company expects that the remuneration committee would approve and recommend to the Board the Group's compensation policy for officers and Directors (including periodic examination and updates to the compensation policy) as required under the Israeli Companies Law, determine or recommend to the Board for

approval the remuneration of officer and Directors, review and recommend to the Board for approval grants of awards under the Group's incentive plans and prepares an annual remuneration report for approval by the Shareholders at annual general meetings. It is expected that the remuneration committee would meet at least once a year.

Composition and membership

The UK Corporate Governance Code recommends that the remuneration committee be comprised of at least three members, all of whom are independent non-executive directors. It also recommends that one of the members of the remuneration committee may be the chairman (but that person may not chair the remuneration committee) if he or she was considered independent on appointment as chairman.

Under the Israeli Companies Law, the remuneration committee must be comprised of at least three directors, including all of the external directors, who must constitute a majority of the members of the remuneration committee. Each remuneration committee member that is not an external director must be a director whose compensation does not exceed an amount that may be paid to an external director under regulations promulgated under the Israeli Companies Law. Pursuant to the Israeli Companies Law, the audit and risk committee may not include a Controlling Shareholder Director. An external director must serve as the chairman of the remuneration committee.

The Company expects that its remuneration committee would be chaired by Dafna Sharir and its other members would be Tido van Wieringen and Andrew MacLeod.

The Board considers that were the Company to establish the committees described above, the Company would comply with the recommendations of the UK Corporate Governance Code and the requirements of the Israeli Companies Law with regard to the composition and role of such committees.

3.3 Internal Auditor

The Israeli Companies Law requires the board of directors of a public company to appoint an internal auditor who is recommended by the audit and risk committee. An internal auditor may not be: (i) a person (or a relative of a person) who holds 5% or more of a public company's outstanding shares or voting rights; (ii) a person (or a relative of a person) who has the power to appoint a director or the general manager of the public company; (iii) an office holder or director of the public company, within the meaning of the Israeli Companies Law (including a director and the general manager), or a relative thereof; or (iv) a member of the public company's independent accounting firm, or anyone on his or her behalf. The role of the internal auditor is to examine, among other things, a public company's compliance with applicable law and orderly business procedures. The audit and risk committee is required to oversee the activities and to assess the performance of the internal auditor as well as to review the internal auditor's work plan.

Were the Company to become a public company, an internal auditor would be appointed to fulfil the role described above under the Israeli Companies Law who is expected to also fulfil the internal audit function recommended by the UK Corporate Governance Code and provide management and the audit and risk committee with on-going assessments of the Company's risk management processes and systems of internal controls.

3.4 Share dealing code

Were the Company to become a public company, the Company expects to put in place a code of securities dealings in relation to the Shares which would be based on the requirements of the Market Abuse Regulation. The code adopted would apply to the Directors and other relevant employees of the Group.

4. RELATIONSHIP WITH MAJOR SHAREHOLDER

The Company intends to enter into a relationship agreement with the major shareholder of the Group, ECI Holding (Hungary) Kft. (the "**Major Shareholder**"), an entity controlled by Swarth Group, (the "**Relationship Agreement**"). Pursuant to the Relationship Agreement, the Company expects that the Major Shareholder would agree, in respect of itself and its associates:

(a) not take any action that would have the effect of preventing the Group from carrying on its business independently of the Major Shareholder and its associates;

(b) not to take any action that would have the effect of preventing the Group from complying with its obligations under the Listing Rules, the Market Abuse Regulation, the DTRs, the requirements of the

London Stock Exchange, the Israeli Companies Law and regulations thereunder or other applicable laws and regulations;

(c) not to take any action that would have the effect of preventing the Group or the Board, from managing their affairs in accordance with the principles of good governance as set out in the UK Corporate Governance Code and the corporate governance requirements set forth in the Israeli Companies Law;

(d) not to propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules (were the Company to be subject to them) or the Israeli Companies Law or to exercise any of their voting rights or other rights and powers in a way that would be inconsistent with, or breach any of the provisions of the Relationship Agreement;

(e) not to take any action which it knows (or should reasonably know) would prejudice either the Company's status as a listed company or its suitability for listing;

(f) to abstain from voting on any resolution required by paragraph 11.1.7R(3) of the Listing Rules to approve a "related party transaction" involving the Major Shareholder or any of its associates (were the Company to be subject to the Listing Rules);

(g) not to directly or indirectly solicit for service or employment any senior or key employee of the Group for a period of two years from the effective date of the Relationship Agreement; and

(h) not to directly or indirectly solicit any of the Group's existing customers for any opportunity for which the Group can compete in its line of business for a period of two years from the effective date of the Relationship Agreement.

In addition, pursuant to the Relationship Agreement:

(a) the Major Shareholder will have the right to appoint one non-executive director to the Board (the "**Shareholder Director**") of the Company and one member to the Company's nomination committee for so long as the Major Shareholder and its associates, alone or together, hold in aggregate 10% or more of the voting rights attaching to the issued share capital of the Company (which will be Stanley B. Stern);

(b) the Shareholder Director shall be entitled to disclose to the Major Shareholder or any of its associates any information provided to the Shareholder Director by any member of the Group or which otherwise comes into his or her possession through his or her role as Director (subject to the Shareholder Director complying with his or her legal, regulatory and fiduciary obligations);

(c) the Company has agreed, to the extent permitted by applicable laws and regulation (including the FCA's code of market conduct), to supply the Major Shareholder with all such information reasonably requested by the Major Shareholder to complete any tax return or other filing, which may be required by law or regulation, for any audit or regulatory reason or to meet its financial reporting requirements; and

(d) the Company has agreed for so long as the Major Shareholder and its concert parties (as defined in the Takeover Code) hold in aggregate an interest in 25% or more of the aggregate voting rights of the Company, to propose such resolutions at a Board meeting or to its independent shareholders that in each case, are required to waive all obligations of the Major Shareholder (and its concert parties) to make a general offer for Shares that may otherwise arise as a result of the Company purchasing or effecting any other transaction in relation to Shares or related securities.

Any such information disclosed to the Major Shareholder under paragraph (b) or (c) above shall be kept confidential (save as may be required to be disclosed by law or regulation) and shall be disclosed on the basis that the Company accepts no responsibility for or liability in respect of such information.

The terms and conditions of the Relationship Agreement shall be in addition to, and shall not derogate from, the duties and rights of the Major Shareholder in its capacity as a Shareholder and, to the extent applicable, Controlling Shareholder under the Israeli Companies Law.

Once effective, the Relationship Agreement would remain in effect for so long as the Major Shareholder and any of its associates hold, in aggregate, 10% of voting rights attaching to the Shares and were the Shares to be listed, for so long as they are so listed.

The Relationship Agreement would need to be approved by the audit and risk committee, the Board and Shareholders by a special majority under the Israeli Companies Law—see section 5 of this Part 6: "*Directors, Senior Managers and Corporate Governance*" for more information.

The Group believes that the terms of the Relationship Agreement would enable the Group to carry on its business independently of the Major Shareholder and ensure that all transactions and arrangements between the Group, on the one hand, and the Major Shareholder and its associates and/or persons acting in concert with the Major Shareholder or its associates, on the other hand, will be conducted at arm's length and on normal commercial terms.

5. RELATIONSHIP WITH CONTROLLING SHAREHOLDERS UNDER THE ISRAELI COMPANIES LAW

Pursuant to the Israeli Companies Law, certain disclosure requirements regarding personal interests that apply to directors and executive officers of a company also apply to a Controlling Shareholder of a public company. In the context of a transaction between a company and one of its shareholders, a Controlling Shareholder includes a shareholder who holds 25% or more of the voting rights in the company if no other shareholder holds more than 50% of the voting rights in the company. For this purpose, the holdings of all shareholders who have a personal interest in the same transaction would be aggregated.

Extraordinary transactions with a Controlling Shareholder or in which a Controlling Shareholder has a personal interest, including a private placement in which a Controlling Shareholder has a personal interest, and the terms of engagement with a Controlling Shareholder or a relative thereof, directly or indirectly (including through a corporation controlled by a Controlling Shareholder), for the provision of services to the company and his or her terms of employment or service as an office holder or employment as other than an office holder, require the approval of each of (i) the audit and risk committee or the remuneration committee with respect to the terms of service or employment by the company as an office holder, an employee or service provider; (ii) the board of directors; and (iii) the shareholders, in that order. The shareholder approval requires one of the following, hereinafter referred to as a "**Special Majority**":

- a majority of the shares held by all shareholders who do not have a personal interest in the transaction and who are present and voting on the matter approves the transaction, excluding abstentions; or
- the shares voted against the transaction by shareholders who have no personal interest in the transaction and who are present and voting at the meeting do not exceed 2% of the voting rights in the company.

Each shareholder voting on the approval of an extraordinary transaction with a Controlling Shareholder must inform the company prior to voting whether or not he or she has a personal interest in the approval of the transaction, otherwise, the shareholder is not eligible to vote on the proposal and his or her vote will not be counted for purposes of the proposal.

To the extent that any such transaction with a Controlling Shareholder is for a period of more than three years, approval is required once every three years, unless, with respect to any such extraordinary transactions, the audit and risk committee determines that the duration of the transaction is reasonable given the related circumstances.

Under the Israeli Companies Law, an extraordinary transaction is defined as any of the following: a transaction other than in the ordinary course of business; a transaction that is not on market terms; or a transaction that may have a material impact on a company's profitability, assets or liabilities.

The remuneration committee and board approval for arrangements regarding the terms of service or employment of a Controlling Shareholder must be in accordance with the company's compensation policy. In special circumstances the remuneration committee and board of directors may approve a compensation arrangement that is inconsistent with the company's compensation policy, provided that they have considered the same considerations and matters required for the approval of a compensation policy in accordance with the Israeli Companies Law and that shareholder approval was obtained by the Special Majority.

Pursuant to regulations promulgated under the Israeli Companies Law, certain transactions with a Controlling Shareholder or his or her relative, or with directors, relating to terms of service or employment that would otherwise require approval of a company's shareholders may be exempt from shareholder approval upon certain determinations of the audit and risk committee and board of directors. In addition, disclosure of a personal interest in a private placement of a public company (including disclosure of any material fact or document) is required by (i) a shareholder holding 5% or more of the company's issued and outstanding capital or its voting rights whose holdings will increase as result of the private placement and a shareholder who will hold 5% or more of the company's issued and outstanding capital or its voting rights as a result of the private placement, if 20% or more of the company's outstanding share capital prior to the private placement is issued in the private placement and the payment for which is not only in cash or listed securities or the transaction is not on market

terms; and (ii) a person or entity that will become a Controlling Shareholder as a result of the private placement.

6. SHAREHOLDER DUTIES UNDER ISRAELI LAW

Pursuant to the Israeli Companies Law, a shareholder has a duty to act in good faith and in a customary manner toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at a meeting of shareholder with respect to the following matters:

- an amendment to the company's articles of association;
- an increase of the company's authorised share capital;
- a merger; and
- the approval of related party transactions and acts of office holders that require shareholder approval.

In addition, a shareholder has a general duty to refrain from discriminating against other shareholders.

Certain shareholders have a duty of fairness toward the company. These shareholders include any Controlling Shareholder, any shareholder who knows that he or she has the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or to prevent the appointment of an office holder of the company or other power towards the company. The Israeli Companies Law does not define the substance of the duty of fairness, except to state that the remedies generally available upon a breach of contract will also apply in the event of a breach of the duty to act with fairness.

7. REMUNERATION UNDER THE ISRAELI COMPANIES LAW

7.1 Compensation Policy under the Israeli Companies Law

Under the Israeli Companies Law, the duties of the remuneration committee of a public company include the recommendation to the Board of a policy regarding the terms of engagement of office holders, as such term is defined in the Israeli Companies Law, referred to herein as a compensation policy, and any extensions and updates thereto.

Until the adoption of the compensation policy, any determination or amendment to the remuneration of an office holder requires the approval of the remuneration committee, the board of directors and the shareholders. The Company intends for its remuneration committee to prepare a compensation policy for adoption, as required under the Israeli Companies Law.

The compensation policy would need to be adopted by the board of directors of a public company, after considering the recommendations of the remuneration committee, and would need to be brought for approval by the company's shareholders, by a majority vote of the shares present and voting at a Shareholders meeting on the matter, provided that either: (i) such majority includes at least a majority of the shares held by all shareholders who are not Controlling Shareholders and shareholders who do not have a personal interest in such compensation arrangement present and voting on the matter, excluding abstentions; or (ii) the total number of shares of non-Controlling Shareholders and shareholders who do not have a personal interest in the matter and who vote against the matter does not exceed 2% of the Company's aggregate voting rights.

The board of directors of a public company may approve the compensation policy even if such policy were not approved by the Shareholders, provided that the remuneration committee and the board of directors of a public company resolves, based on detailed consideration of the compensation policy, that approval of the policy, is in the best interest of the Company, despite the fact that it was not approved at the shareholders' meeting.

The compensation policy would serve as the basis for decisions concerning the financial terms of employment or engagement of office holders, including exculpation, insurance, indemnification or any monetary payment or obligation of payment in respect of employment or engagement, including and any severance payment or benefit.

The compensation policy would be determined, and must later be re-evaluated, according to certain factors, including: (i) the advancement of a company's objectives, business plan and its long-term strategy; (ii) the creation of appropriate incentives for executives, while considering (among other things) the company's risk management policy; (iii) the size and the nature of the company's operations; and (iv) with respect to variable compensation, the contribution of the office holder towards the achievement of the company's long-term goals and the maximisation of its profits, all with a long-term objective and in accordance with the position of the office holder.

In accordance with the Israeli Companies law, the compensation policy would refer to the following factors:

- the knowledge, skills, expertise, professional experience and accomplishments of the relevant office holder;
- the office holder's roles and responsibilities and prior compensation agreements with him or her;
- the ratio of the cost of the offered terms to the cost of compensation of the other employees of the company (including any employees employed through manpower companies), specifically to the cost of the average and median salaries of such employees and the impact of the disparities between them upon work relationships in the company;
- with respect to variable compensation - the possibility of reducing variable compensation at the discretion of the board of directors, and the possibility of setting a limit on the exercise value of non-cash variable equity-based compensation; and
- with respect to severance compensation, the period of employment or service of the office holder, the terms of his or her compensation during such period, the company's performance during such period, the person's contribution towards the company's achievement of its goals and the maximisation of its profits, and the circumstances under which the person is leaving the company.

In addition, in according with the Israeli Companies Law, the compensation policy of a public company would include the following principles:

- the link between variable compensation (e.g., bonuses) and long-term performance and measurable criteria (i.e., variable compensation must be determined based on long-term performance and measurable criteria). Only "non-material" portion of variable compensation may be determined based on criteria that is not measurable, taking into account office holders' contribution to the Company;
- the ratio of variable to fixed compensation, and the ceiling for the value of variable compensation, which is determined at the time of payment, except that the ceiling for equity-based compensation is determined at the time of grant;
- the conditions under which an office holder would be required to repay compensation paid to him or her if it was later shown that the data upon which such compensation was based was inaccurate and was required to be restated in the company's financial statements;
- the minimum holding or vesting period for variable, equity-based compensation, while taking into account long-term objectives; and
- maximum limits for severance compensation.

7.2 Remuneration of Officers Other than the Chief Executive Officer

Under the Israeli Companies Law, the compensation of a public company's office holder (other than the chief executive officer) who is not a director generally requires approval first by the company's remuneration committee, then by the company's board of directors, according to the company's compensation policy. In special circumstances the remuneration committee and board of directors may approve a compensation arrangement that is inconsistent with the company's compensation policy, provided that they have considered the same considerations and matters required for the approval of a compensation policy in accordance with the Israeli Companies Law and such arrangement must be approved by a majority vote of the shares present and voting at a shareholders meeting on the matter, provided that either: (i) such majority includes at least a majority of the shares held by all shareholders who are not Controlling Shareholders and shareholders who do not have a personal interest in such compensation arrangement present and voting on the matter, excluding abstentions; or (ii) the total number of shares of non-Controlling Shareholders and shareholders who do not have a personal interest in the matter and who vote against the matter does not exceed 2% of the company's aggregate voting rights, which is hereinafter referred to as the Special Approval for Compensation. However, if the shareholders of the company do not approve a compensation arrangement with an executive officer that is inconsistent with the company's compensation policy, the remuneration committee and board of directors may, in special circumstances, override the shareholders' decision if each of the remuneration committee and the board of directors discuss the arrangement again, analyse the shareholders' objection and provide detailed reasons for their decision.

An amendment to an existing arrangement with an office holder (other than the chief executive officer) who is not a director requires only the approval of the remuneration committee, if the remuneration committee determines that the amendment is not material in comparison to the existing arrangement. However, according

to a recent amendment to regulations promulgated under the Israeli Companies Law, an amendment to an existing arrangement with an office holder (who is not a director) who is subordinate to the chief executive officer shall not require the approval of the remuneration committee, if (i) the amendment is approved by the chief executive officer and the company's compensation policy determines that a non-material amendment to the terms of service of an office holder (other than the chief executive officer) will be approved by the chief executive officer and (ii) the engagement terms are consistent with the company's compensation policy.

7.3 Remuneration of Chief Executive Officer

Under the Israeli Companies Law, the compensation of a public company's chief executive officer generally requires the approval of first, the company's remuneration committee; second, the company's board of directors and third (except for a number of exceptions), the company's shareholders by the Special Approval for Compensation. However, if the shareholders of the company do not approve a compensation arrangement with a chief executive officer, the remuneration committee and board of directors may, in special circumstances, override the shareholders' decision if each of the remuneration committee and the board of directors discuss the arrangement again, analyse the shareholders' objection and provide detailed reasons for their decision. However, an amendment to an existing arrangement with a chief executive officer who is not a director requires only the approval of the remuneration committee, if the remuneration committee determines that the amendment is not material in comparison to the existing arrangement.

According to a recent amendment to regulations promulgated under the Israeli Companies Law, the renewal or extension of an existing arrangement with a chief executive officer shall not require shareholder approval if (i) the renewal or extension is not beneficial to the chief executive officer as compared to the prior arrangement or there is no substantial change in the terms and other relevant circumstances; and (ii) the engagement terms are consistent with the company's compensation policy and the prior arrangement was approved by the shareholders by the Special Approval for Compensation.

7.4 Remuneration of Directors under the Israeli Companies Law

Under the Israeli Companies Law, arrangements regarding the compensation of a public company's directors require the approval of the remuneration committee, board of directors and (except for a number of exceptions) shareholders by ordinary majority, in that order. The approval of the remuneration committee and board of directors must be in accordance with the compensation policy. In special circumstances, the remuneration committee and board of directors may approve a compensation arrangement that is inconsistent with the company's compensation policy, provided that they have considered the same considerations and matters required for the approval of a compensation policy in accordance with the Israeli Companies Law and that shareholder approval was obtained by the Special Approval for Compensation.

With respect to compensation of an officer (including chief executive officer) or director who is also a Controlling Shareholder, see Section 7.2 above.

Under the Israeli Companies Law, external directors of a public company are prohibited from receiving, directly or indirectly, any compensation for their services as external directors other than pursuant to the Israeli Companies Law and the regulations promulgated thereunder. Compensation of an external director is determined prior to his or her appointment and may not be changed during any three-year term subject to certain exceptions.

8. CONFLICTS OF INTEREST

There are no potential conflicts of interest between any duties owed by the Directors or Senior Managers to the Company and their private interests or other duties.

Part 7
SELECTED FINANCIAL INFORMATION

The selected financial information set out below has been extracted without material amendment from Sections B and C of Part 9: "Historical Financial Information" of this Registration Document, where it is shown with important notes describing some of the line items.

1. GROUP CONSOLIDATED INCOME STATEMENT

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
		Unaudited			
	(in $ millions)				
Revenues	**197.7**	**159.0**	**367.2**	**326.0**	**335.1**
Cost of sales	130.8	107.0	237.4	192.1	209.5
Gross profit	**66.9**	**52.0**	**129.8**	**133.9**	**125.6**
Research and development expenses, net	14.3	22.1	43.1	41.8	42.9
Selling and marketing expenses	29.0	25.9	54.8	52.9	52.2
General and administrative expenses	11.0	9.2	18.7	21.6	19.2
Amortisation of intangible assets	—	—	—	1.1	1.9
Reorganisation expenses	1.4	—	—	3.7	0.3
Operating income	**11.2**	**(5.1)**	**13.2**	**12.8**	**9.0**
Financing income	0.1	0	0	1.9	1.1
Financing expenses	(28.0)	(27.5)	(52.3)	(42.6)	(34.1)
Financing expenses, net	(27.9)	(27.5)	(52.2)	(40.7)	(33.0)
Loss before taxes on income	(16.7)	(32.6)	(39.0)	(27.9)	(24.0)
Taxes on income	(2.0)	(1.8)	(2.8)	(3.3)	(3.3)
Loss for the period	**(18.8)**	**(34.3)**	**(41.8)**	**(31.3)**	**(27.3)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**29.9**	**13.0**	**50.3**	**50.6**	**53.3**

2. GROUP CONSOLIDATED BALANCE SHEET

	As at 30 June 2018	As at 31 December 2017	2016	2015
		(in $ millions)		
Assets				
Cash and cash equivalents	15.7	26.2	29.8	26.0
Restricted cash	16.4	13.0	10.8	16.0
Trade receivables	79.8	91.3	67.8	75.7
Other receivables	23.7	24.7	13.7	14.7
Current tax receivables	1.3	1.5	2.0	2.7
Inventory	61.9	58.9	59.4	49.8
Total current assets	**198.8**	**215.7**	**183.5**	**184.8**
Trade and other receivables	7.6	2.0	1.7	0.4
Fixed assets	50.9	52.7	54.6	60.8
Capitalised development costs	46.4	40.0	35.5	35.0
Intangible assets	11.1	11.5	13.4	16.4
Goodwill	205.0	205.0	205.0	205.0
Deferred tax assets	2.1	2.6	2.4	2.1
Total non-current assets	**323.1**	**313.8**	**312.7**	**319.6**
Total Assets	**521.9**	**529.5**	**496.1**	**504.5**
Liabilities				
Loans and borrowings	0.8	204.0	203.5	190.4
Trade payables	74.5	87.8	49.8	43.8
Other payables	65.8	141.8	106.9	103.9
Royalties payable to Israel Innovation Authority	7.4	8.5	1.8	4.7
Current tax liabilities	0.2	0.2	1.6	1.6
Lease liabilities	8.9	8.3	8.0	8.0
Provisions	5.8	5.3	6.6	4.2
Total current liabilities	**163.4**	**455.9**	**378.1**	**356.4**
Long-term loans	133.4	—	—	—
Royalties payable to Israel Innovation Authority	22.6	24.1	28.0	24.6
Employee benefits	6.2	6.9	6.1	6.4
Other long-term liabilities	10.6	0.3	0.1	0.2
Lease liabilities	14.7	17.1	16.6	19.6
Provisions	—	1.2	1.2	—
Total non-current liabilities	**187.5**	**49.6**	**52.0**	**50.7**
Total liabilities	**351.0**	**505.5**	**430.1**	**407.2**
Equity				
Non-controlling interest	69.8	—	—	—
Share capital	0.1	0.1	0.1	0.1
Share premium	1,296.6	1,246.9	1,246.9	1,246.9
Preferred shares	87.3	—	—	—
Capital note	—	37.9	37.9	37.9
Capital reserves	88.0	88.0	88.0	88.0
Accumulated deficit	(1,370.9)	(1,348.8)	(1,306.9)	(1,275.6)
Equity attributable to the owners of the Company	**101.1**	**24.0**	**66.0**	**97.3**
Total equity	**170.9**	**24.0**	**66.0**	**97.3**
Total liabilities and equity	**521.9**	**529.5**	**496.1**	**504.5**

3. GROUP CONSOLIDATED CASH FLOW STATEMENT

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
		Unaudited			
	(in $ millions)				
Net cash flows from operating activities	27.5	20.5	49.6	44.3	40.6
Net cash used in investing activities	(24.6)	(17.5)	(31.7)	(21.2)	(26.4)
Net cash used in financing activities	(12.6)	(13.2)	(21.9)	(18.0)	(18.9)
Cash and cash equivalents as at the end of the period	15.7	19.9	26.2	29.8	26.0

Part 8
OPERATING AND FINANCIAL REVIEW

This Part 8: "Operating and Financial Review" should be read in conjunction with Part 2: "Presentation of Financial and Other Information", Part 4: "Industry Overview", Part 5: "Business" and Part 9: "Historical Financial Information". Prospective investors should read the entire document and not just rely on the summary set out below. The financial information considered in this Part 8: "Operating and Financial Review" is extracted from the financial information set out in Part 9: "Historical Financial Information".

The following discussion of the Group's results of operations and financial conditions contains forward-looking statements. The Group's actual results could differ materially from those that it discusses in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this Registration Document, particularly under Part 1: "Risk Factors" and Part 2: "Presentation of Financial and Other Information". In addition, certain industry issues also affect the Group's results of operations and are described in Part 4: "Industry Overview".

1. COMPANY OVERVIEW

The Group is a leading global provider of comprehensive networking and data transport products and solutions to Service Providers, Utilities and Governments, and Defence and Security customers. The Group has been providing comprehensive networking and data transport products and solutions since 1961 and is one of only a few providers offering both optical and packet networking products and solutions, with a diverse and long-standing customer base. For the year ended 31 December 2017, all of the Group's top 10 end-customers by revenue had purchased the Group's products or services every year since 2008. The Group is headquartered in Petak Tikva, Israel, which is just outside Tel Aviv, Israel and had over 250 customers and operations in more than 70 countries worldwide as at 31 December 2017.

2. CURRENT TRADING AND PROSPECTS

The Group has continued to trade in line with the Directors' expectations since June 30, 2018. The Group continues to expect low-double digit revenue growth in 2018. Overall, the Directors continue to remain confident regarding the performance and prospects of the Group for the remainder of 2018 and the operational and financial ability of the Group to continue to implement its strategy of investment and growth.

The Group expects low double-digit growth in revenue in the near-medium term, accelerating to mid-to-high teens once large 5G projects commence, including a potential step change in revenue growth upon successful large 5G contract wins. The Group expects gross margins to remain stable in 2018 compared to 2017, with incremental and gradual increases in the near-medium term towards 40% or more, driven by economies of scale (approximately 25% of the Group's costs of goods sold are semi-fixed costs), product cost reduction (with approximately $27 million cost reduction over the last three years ended 31 December 2017), North America penetration and increase in software sales. The Group expects operating expenses to see a gradual and moderate decline (as a percentage of revenues) from 27.5% of revenues for the six months ended 30 June 2018, due to high operating leverage off set by approximately $1.5 million increase in general and administration expense in connection with the Group going public. In the medium term, the Group will target an EBITDA margin above 20%. The Group expects depreciation to remain broadly stable in the near-medium term and amortisation of capitalised development costs to increase slightly (as a percentage of revenues) in the near-medium term.

The Group will be using a portion of the proceeds from the Global Offer to repay $63.5 million of the Group's existing senior credit facility, as well as additional $3.5 million accrued PIK interest.

The Group expects its financing expense in the second half of 2018 to be approximately $52 million, including a one-time, approximately $31 million, revaluation of warrants held by the Group's lenders (subject to a certain IPO valuation), as well as the accounting implication of the anticipated partial repayment of the Group's existing senior facility agreement.

Going forward, the Group expects its cash financing expense to be approximately $11 million annually, increasing slightly in the near-medium term and its non-cash financing expenses to be approximately $16 million annually (including PIK accrual, present value catch up of lease and royalty liabilities), increasing gradually to approximately $18 million in the near-medium term.

The Group expects capital expenditure to increase moderately from $6.2 million for the year ended 31 December 2017 to approximately $8 million for the year ended 31 December 2018, with capitalisation of development costs remaining stable at approximately 47% of research and development expenses. In addition,

the Group expects to make a lease liability payment of approximately $9 million and a royalty liability payment of approximately 2.0% to 2.3% of revenues in the near-medium term.

3. FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

The Group's results have been affected, and are expected to be affected in the future, by a variety of factors. A discussion of key factors that have had, or may have, an effect on the Group's results is set forth below (for a further discussion of the factors affecting the Group's results of operations, see Part 1: "*Risk Factors*"):

Industry trends

The telecommunication networks industry has witnessed certain prominent trends in recent years, which have also affected the Group's business. The increase in the use of data services and the resulting substantial increase in data traffic has resulted in an increased need for high-performance, high-quality and highly reliable networks, which the Directors believe the Group is well-positioned to provide. In addition, the telecommunication networks industry can be influenced by economic conditions and a range of demographic and macroeconomic factors, including population growth, industrialisation in developing countries and consumer preferences. For example, India's recent transition to 4G correlated with the Group's revenues in India increasing 55% from 2015 to 2017. See Section 1 of Part 4: "*Industry Overview*" of this Registration Document for additional information on key industry trends.

Competition, pricing and price erosion

While industry drivers of bandwidth and traffic growth due to an increasing number of customers who require increased data and network evolution as a result of technological growth remain strong, the Group's customers are under constant pressure to constrain their capital expenditure budgets and cannot grow their network spending at the rate of bandwidth and traffic growth. In addition, competition amongst the leading transport network providers, including the Group, Ciena, Huawei and others remains intense, creating additional pricing pressure. As a result, as the Group aims to introduce innovative and more robust solutions, customers expect that the Group's products and solutions will be more cost-effective than existing or competing solutions. For example, the Group's revenue in India has increased 55% from 2015 to 2017 due to the roll out of 4G networks and increased consumer demand; however the Group's overall gross margin decreased as a result of this strong pricing competition. The combination of this regular technology-driven and competition-driven price compression in the data transport industry and ongoing customer efforts to manage network costs, requires that the Group continuously evaluate its cost of products and maintain an active cost reduction program, including, among others, maintaining a robust pricing strategy with the Group's suppliers and reengineering product components as necessary to reduce the overall cost of producing the Group's products, and thereby increasing the Group's margins.

Customer wins and geographic mix of customers

From 2015 to 2017, the Group's revenue has grown by a CAGR of 4.7% and has benefited from its successful efforts to increase its number of new "wins" (defined as either entering into a contract with a new customer or new product orders placed by existing customers). Specifically, since 2016, the Group has had over 70 new wins, the majority of which were with new customers. These new wins have already generated approximately $170 million in revenue since 2016 as at 30 June 2018.

In addition, the profitability of the Group's business is affected by the geographical mix of its customers. The Group's customers are located around the world. Typically, the Group's customers located in emerging markets tend to be more price sensitive compared to customers located in more developed markets. As a result, gross margins tend to be lower in emerging markets compared to developed markets

For example, although the Group saw a 10% increase in revenues from 2015 to 2017, the Group's gross margin decreased from 37.5% for the year ended 31 December 2015 to 35.4% for the year ended 31 December 2017, primarily due to India comprising a higher percentage of the Group's overall revenues for the year ended 31 December 2017 (42%) compared to the year ended 31 December 2015 (30%).

The following table sets forth the Group's revenues by geographic segment as a percentage of total revenues for the periods presented:

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
	Unaudited				
			(as a % of revenues)		
EMEA	25%	31%	32%	33%	39%
India	47%	43%	42%	38%	30%
Israel	20%	13%	15%	12%	8%
RoW	8%	13%	11%	17%	23%
Total	100%	100%	100%	100%	100%

Research and development (R&D)

The Group's product revenues, generated primarily from the Apollo and Neptune solutions and SDN and NFV applications, require significant R&D investment, which impacts the Group's profitability. As a technology company with a broad product portfolio, the Group must continuously invest in significant R&D to continue innovating and attracting customers. For the years ended 31 December 2017, 2016 and 2015, the Group's gross R&D spending was $73.0 million, $70.2 million and $70.9 million, respectively, or on average 21% of revenues per year.

Seasonality

The Group's sales are affected by seasonality in the network operators' spending cycles, with generally higher sales in the fourth calendar quarter, followed by generally lower sales in the first calendar quarter, primarily due to the fact that customers often wait to spend their capital expenditure budget later in the year to avoid going over budget.

Fluctuations in exchange rates

The Group's functional currency is the U.S. dollar. As a result of its global operations, the Group is exposed to the risk of foreign currency exchange rate fluctuations. The Group's primary currency exposures are to the NIS and the Euro. The exposure to NIS is a result of the fact that a significant portion of the Group's expenses, principally salaries and related personnel expenses, are paid in NIS. During the financial year ended 31 December 2017, the NIS appreciated significantly against the U.S. dollar, which considerably increased the U.S. dollar value of the Group's expenses in Israel in that period.

In addition, approximately 28% of the Group's revenue in the year ended 31 December 2017 were denominated in currencies other than U.S. dollars, principally the Euro (9%), the Pound Sterling (5%) and the Indian Rupee (5%), which may expose the Group to gains and losses when translating these revenues to U.S. dollars; however some of these revenues are offset by costs incurred in the same currency. Furthermore, a depreciation in the local currencies of the Group's customers relative to the U.S. dollar could cause customers to decrease or cancel orders or default on payment, which could harm the Group's results of operations.

Taxation

As at 30 June 2018, the Company and its subsidiaries had, for tax purposes, operating loss carry-forwards, capital loss carry-forwards, loss from marketable securities, and general business tax credit carry-forward of $1,559.6 million, $177.7 million, $55.5 million and $3.6 million, respectively. These loss carry-forwards were generated principally in Israel during the years 2000 to 2018 and accordingly the Company expects such losses to be available in the future to potentially reduce the Group's corporate income tax burden in Israel. Furthermore, as at 30 June 2018, the Group had $536.8 million of potential deferred tax assets which have not been recognised on the Group's balance sheet.

The ability of the Group to effectively use these tax losses (and to achieve all or part of the theoretical tax savings they represent) will depend on a number of factors, such as:

- the ability of the Group or of certain of the Group's subsidiaries to generate taxable profits; and
- possible changes in applicable laws and regulations.

In addition, the Group operates across a number of jurisdictions with different corporate tax rates, which range from 15% to 35%.

4. COMPONENTS OF STATEMENTS OF INCOME

Revenues

Revenues consist of revenues from products as well as revenues from services provided, principally maintenance and installation and commissioning.

Cost of sales

Cost of sales consist of the cost of products purchased principally from the Group's EMS providers, other component manufacturers and service subcontractors. Cost of sales also includes personnel and related costs of the Group's customer service division and customer operations division as well as freight costs, inventory write-offs and amortisation of capitalised development costs.

Gross profit

Gross profit consists of revenues less cost of sales.

Research and development expenses, net

Research and development expenses, net consist primarily of personnel and related costs as well as cost of materials used in R&D less development costs capitalised and grant participations.

Selling and marketing expenses

Selling and marketing expenses consist primarily of the personnel and related costs of the Group's worldwide sales and marketing teams, as well as marketing expenses.

General and administrative expenses

General and administrative expenses consist primarily of the personnel costs of management, finance, human resources and legal, as well as legal and audit fees.

Amortisation of intangible assets

Amortisation of intangible assets consists of amortisation of intangible assets over the time of their expected useful lives.

Reorganisation expenses

Reorganisation expenses consist of expenses that management considers to be non-recurring, such as expenses associated with workforce reduction and exiting onerous contracts.

Financing expenses, net

Financing expenses, net consist primarily of interest expenses on bank loans and others, bank charges and factoring fees, amortisation of deferred financing costs and exchange rate differences.

Taxes on income

Taxes on income consist of the tax expense for the year and changes in deferred tax assets and liabilities.

EBITDA

EBITDA is defined as the Group's net loss before interest, tax, depreciation and amortisation. The Group believes that EBITDA is a key metric for the Group as it allows the Group to evaluate the Group's underlying operating performance by excluding certain items, including interest costs, that the Group does not consider indicative of the Group's core operating performance. See also Section 4 of Part 2: "*Presentation of Financial and Other Information*".

5. GROUP RESULTS OF OPERATIONS

The table below sets forth the Group's results of operations for the periods presented:

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
		Unaudited			
	(in $ millions)				
Revenues	**197.7**	**159.0**	**367.2**	**326.0**	**335.1**
Cost of sales	130.8	107.0	237.4	192.1	209.5
Gross profit	**66.9**	**52.0**	**129.8**	**133.9**	**125.6**
Research and development expenses, net	14.3	22.1	43.1	41.8	42.9
Selling and marketing expenses	29.0	25.9	54.8	52.9	52.2
General and administrative expenses	11.0	9.2	18.7	21.6	19.2
Amortisation of intangible assets	—	—	—	1.1	1.9
Reorganisation expenses	1.4	—	—	3.7	0.3
Operating income	**11.2**	**(5.1)**	**13.2**	**12.8**	**9.0**
Financing income	0.1	0	0	1.9	1.1
Financing expenses	(28.0)	(27.5)	(52.3)	(42.6)	(34.1)
Financing expenses, net	(27.9)	(27.5)	(52.2)	(40.7)	(33.0)
Loss before taxes on income	(16.7)	(32.6)	(39.0)	(27.9)	(24.0)
Taxes on income	(2.0)	(1.8)	(2.8)	(3.3)	(3.3)
Loss for the period	**(18.8)**	**(34.3)**	**(41.8)**	**(31.3)**	**(27.3)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**29.9**	**13.0**	**50.3**	**50.6**	**53.3**

Six months ended 30 June 2018 and 2017

	Six months ended 30 June	
	2018	2017
		Unaudited
	(in $ millions)	
Revenues	**197.7**	**159.0**
Cost of sales	130.8	107.0
Gross profit	**66.9**	**52.0**
Research and development expenses, net	14.3	22.1
Selling and marketing expenses	29.0	25.9
General and administrative expenses	11.0	9.2
Amortisation of intangible assets	—	—
Reorganisation expenses	1.4	—
Operating income	**11.2**	**(5.1)**
Financing income	0.1	0
Financing expenses	(28.0)	(27.5)
Financing expenses, net	(27.9)	(27.5)
Loss before taxes on income	(16.7)	(32.6)
Taxes on income	(2.0)	(1.8)
Loss for the period	**(18.8)**	**(34.3)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**29.9**	**13.0**

Revenues

Revenues were $197.7 million and $159.0 million for the six months ended 30 June 2018 and 2017, respectively. Revenues increased by $38.7 million, or 24.3%, primarily due to continued significant deployment of 4G networks in India and large projects with the Government of Israel.

Cost of sales

Cost of sales were $130.8 million and $107.0 million for the six months ended 30 June 2018 and 2017, respectively. Cost of sales increased by $23.8 million, or 22.3%, primarily due to an increase in sales volume.

Gross profit

Gross profit was $66.9 million and $52.0 million for the six months ended 30 June 2018 and 2017, respectively. Gross profit increased by $14.8 million, or 28.5%, and gross margin increased from 32.7% to 33.8%, primarily due to an increase in sales volume.

Research and development expenses, net

Research and development expenses, net were $14.3 million and $22.1 million for the six months ended 30 June 2018 and 2017, respectively. Research and development expenses, net decreased by $7.8 million, or 35.2%, primarily due to a reduction in gross research and development expenses pursuant to the reorganisation plan implemented in early 2018, as well as an increase in capitalisation of development costs and grant participations from the IIA.

Selling and marketing expenses

Selling and marketing expenses were $29.0 million and $25.9 million for the six months ended 30 June 2018 and 2017, respectively. Selling and marketing expenses increased by $3.1 million, or 12.0%, primarily due to the impact of the appreciation of the NIS against the U.S. dollar in respect of the Group's Israel sales and marketing labour costs as well as an increase in sales commissions paid in respect of the increased revenues in the six months ended 30 June 2018.

General and administrative expenses

General and administrative expenses were $11.0 million and $9.2 million for the six months ended 30 June 2018 and 2017, respectively. General and administrative expenses increased by $1.8 million, or 20.0%, primarily due to the impact of the appreciation of the NIS against the U.S. dollar in respect of the Group's Israel general and administrative labour and facility costs.

Reorganisation expenses

Reorganisation expenses were $1.4 million and nil for the six months ended 30 June 2018 and 2017, respectively. Reorganisation expenses increased by $1.4 million due to a reduction of the workforce in Israel in early 2018.

Financing expenses, net

Financial expenses, net remained relatively stable at $27.9 million and $27.5 million for the six months ended 30 June 2018 and 2017, respectively.

Taxes on income

Taxes on income remained relatively stable at $2.0 million and $1.8 million for the six months ended 30 June 2018 and 2017, respectively.

EBITDA

EBITDA was $29.9 million and $13.0 million for the six months ended 30 June 2018 and 2017, respectively. EBITDA increased by $16.9 million, primarily due to an increase in revenues.

Years ended 31 December 2017 and 2016

	Year ended 31 December	
	2017	**2016**
	(in $ millions)	
Revenues	**367.2**	**326.0**
Cost of sales	237.4	192.1
Gross profit	**129.8**	**133.9**
Research and development expenses, net	43.1	41.8
Selling and marketing expenses	54.8	52.9
General and administrative expenses	18.7	21.6
Amortisation of intangible assets	—	1.1
Reorganisation expenses	—	3.7
Operating income	**13.2**	**12.8**
Financing income	0	1.9
Financing expenses	(52.3)	(42.6)
Financing expenses, net	(52.2)	(40.7)
Loss before taxes on income	(39.0)	(27.9)
Taxes on income	(2.8)	(3.3)
Loss for the year	**(41.8)**	**(31.3)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**50.3**	**50.6**

Revenues

Revenues were $367.2 million and $326.0 million for the years ended 31 December 2017 and 2016, respectively. Revenues increased by $41.2 million, or 12.6%, primarily due to continued significant deployment of 4G networks in India and large projects with the Government of Israel, as well as revenue growth in EMEA related to new wins, partially offset by revenue decline in RoW.

Cost of sales

Cost of sales were $237.4 million and $192.1 million for the years ended 31 December 2017 and 2016, respectively. Cost of sales increased by $45.3 million, or 23.6%, primarily due to the increase in sales volume.

Gross profit

Gross profit was $129.8 million and $133.9 million for the years ended 31 December 2017 and 2016, respectively. The decrease in gross profit of $4.1 million and the decrease in gross margin from 41.1% in 2016 to 35.4% in 2017 was primarily due to the increase in sales volume in lower-priced emerging markets as well as the impact of low penetration pricing on new wins.

Research and development expenses, net

Research and development, net costs were $43.1 million and $41.8 million for the years ended 31 December 2017 and 2016, respectively. Research and development expenses, net increased by $1.3 million, or 3.0%, primarily due to the FX impact of the appreciation of the NIS against the U.S. dollar, as a major part of the Group's R&D labour cost is denominated in NIS.

Selling and marketing expenses

Selling and marketing expenses were $54.8 million and $52.9 million for the years ended 31 December 2017 and 2016, respectively. Selling and marketing expenses increased by $1.9 million, or 3.6%, primarily due to the impact of the appreciation of the NIS against the U.S. dollar in respect of the Group's Israel sales and marketing labour costs as well as an increase in sales commissions paid in respect of the increased revenues in 2017.

General and administrative expenses

General and administrative expenses were $18.7 million and $21.6 million for the years ended 31 December 2017 and 2016, respectively. General and administrative expenses decreased by $2.9 million, or 13.4%,

primarily due to a $2.7 million bad debt expense recorded in 2016 as a result of the decision by a customer to cease its activities in the telecommunications industry and the inability to collect receivables from that customer.

Reorganisation expenses

Reorganisation expenses were nil and $3.7 million for the years ended 31 December 2017 and 2016, respectively. Reorganisation expenses in 2016 were related to a settlement reached by the Group with its former primary IT provider to exit an onerous contract.

Financing expenses, net

Financing expenses, net were $52.2 million and $40.7 million for the years ended 31 December 2017 and 2016, respectively. Financing expenses, net increased by $11.5 million, or 28.3%, primarily due to an increase in the interest rate owed on the Group's 2016 Term Loan in connection with the short-term extension of the Group's 2016 Term Loan in 2017.

Taxes on income

Taxes on income were $2.8 million and $3.3 million for the years ended 31 December 2017 and 2016, respectively. Taxes on income decreased by $0.5 million, or 15.4%, in accordance with a decrease in taxable income in certain of the Group's subsidiaries.

EBITDA

EBITDA was $50.3 million and $50.6 million for the years ended 31 December 2017 and 2016, respectively. In 2017, while the Group's revenues increased, gross profit decreased primarily due to the change in geographical mix of revenues in favour of lower-margin business in developing markets. In addition, because a major part of the Group's cost base is in NIS, the appreciation of the NIS against the U.S. dollar in 2017 resulted in a $4.9 million adverse foreign exchange ("**FX**") impact. As a result, in 2017 EBITDA decreased by $0.3 million, or 0.6% compared to 2016. Excluding the FX impact, the Group's EBITDA for the year ended 31 December 2017 would have been $55.2 million, an increase of 9.1% from the year ended 31 December 2016. There can be no assurance of what the impact of future FX fluctuations will be on EBITDA in the future.

Years ended 31 December 2016 and 2015

	Year ended 31 December	
	2016	**2015**
	(in $ millions)	
Revenues	**326.0**	**335.1**
Cost of sales	192.1	209.5
Gross profit	**133.9**	**125.6**
Research and development expenses, net	41.8	42.9
Selling and marketing expenses	52.9	52.2
General and administrative expenses	21.6	19.2
Amortisation of intangible assets	1.1	1.9
Reorganisation expenses	3.7	0.3
Operating income	**12.8**	**9.0**
Financing income	1.9	1.1
Financing expenses	(42.6)	(34.1)
Financing expenses, net	(40.7)	(33.0)
Loss before taxes on income	(27.9)	(24.0)
Taxes on income	(3.3)	(3.3)
Loss for the year	**(31.3)**	**(27.3)**
Earnings before interest, tax, depreciation and amortisation (EBITDA)	**50.6**	**53.3**

Revenues

Revenues were $326.0 million and $335.1 million for the years ended 31 December 2016 and 2015, respectively. Revenues decreased by $9.1 million, or 2.7%, primarily due to a decrease in revenues in EMEA

related to the strategic decision to reduce sales of the less-profitable Access products and in RoW, largely offset by an increase in revenues in India upon commencement of deployment of 4G networks and from a strategic channel in Israel.

Cost of sales

Cost of sales were $192.1 million and $209.5 million for the years ended 31 December 2016 and 2015, respectively. Cost of sales decreased by $17.5 million, or 8.3%, primarily due to a reduction in sales of less-profitable products and product cost reduction.

Gross profit

Gross profit was $133.9 million and $125.6 million for the years ended 31 December 2016 and 2015, respectively. Gross profit increased by $8.4 million, or 6.7%, primarily due to an increase in sales volume as well as higher profitability of sales in India, which resulted in an increase in gross margins from 37.5% in 2015 to 41.1% in 2016.

Research and development expenses, net

Research and development expenses, net were $41.8 million and $42.9 million for the years ended 31 December 2016 and 2015, respectively. Research and development expenses, net decreased by $1.1 million, or 2.6%, primarily due to a decrease in the Group's research and development personnel in 2016.

Selling and marketing expenses

Selling and marketing expenses were $52.9 million and $52.2 million for the years ended 31 December 2016 and 2015, respectively. Selling and marketing expenses increased by $0.7 million, or 1.3%, primarily due to higher marketing expenses and an increase in personnel in 2016.

General and administrative expenses

General and administrative expenses were $21.6 million and $19.2 million for the years ended 31 December 2016 and 2015, respectively. General and administrative expenses increased by $2.4 million, or 12.4%, primarily due to a $2.7 million bad debt expense recorded in 2016 as a result of the decision by a customer to cease its activities in the telecommunications industry and the inability to collect receivables from that customer.

Reorganisation expenses

Reorganisation expenses were $3.7 million and $0.3 million for the years ended 31 December 2016 and 2015, respectively. Reorganisation expenses in 2016 were related to a settlement reached by the Group with its former primary IT provider to exit an onerous contract. Reorganisation expenses in 2015 were related to workforce reduction plans that were initiated in 2014.

Financing expenses, net

Financing expenses, net were $40.7 million and $33.0 million for the years ended 31 December 2016 and 2015, respectively. Financing expenses, net increased by $7.7 million, or 23.4%, primarily due to an increase in the interest rate on the Group's 2016 Term Loan subsequent to the refinancing of the Group's 2016 Term Loan in 2016.

Taxes on income

Taxes on income remained stable for the years ended 31 December 2016 and 2015 at $3.3 million in both periods.

EBITDA

EBITDA was $50.6 million and $53.3 million for the years ended 31 December 2016 and 2015, respectively. In 2016, despite a slight decrease in revenues, the Group's gross profit increased primarily due to reduction in sales of less profitable products, favourable pricing and product cost reduction. The increase in gross profit was largely offset by a bad debt expense related to a decision of a certain customer of the Group to exit the telecommunications industry and reorganisation expenses related to the settlement reached with the former

primary IT provider. Furthermore, depreciation and amortisation decreased by $6.5 million. As a result, in 2016 EBITDA decreased by $2.7 million, or 5.1%.

6. GROUP LIQUIDITY AND CAPITAL RESOURCES

The Group has financed its operations through cash generated from operations as well as term loans in the periods under review. The Group's principal funding arrangements are described below under the paragraph entitled "*Borrowings*".

The following table presents the major components of the Group's cash flows for the periods presented:

	Six months ended 30 June		Year ended 31 December		
	2018	2017	2017	2016	2015
		Unaudited			
	(in $ millions)				
Net cash flows from operating activities	27.5	20.5	49.6	44.3	40.6
Net cash used in investing activities	(24.6)	(17.5)	(31.7)	(21.2)	(26.4)
Net cash used in financing activities	(12.6)	(13.2)	(21.9)	(18.0)	(18.9)
Cash and cash equivalents as at the end of the period	15.7	19.9	26.2	29.8	26.0

Six months ended 30 June 2018 and 2017

Net cash flows from operating activities

The Group's net cash flow from operating activities increased by $7.0 million, or 34.0%, from $20.5 million in the six months ended 30 June 2017 to $27.5 million in the six months ended 30 June 2018. The increase was primarily due to improvement in the result of operations in the first half of 2018, partially offset by payment of high trade payables related to the high cost of goods during the fourth quarter of 2017.

Net cash flows used in investing activities

The Group's net cash flow used in investing activities increased by $7.1 million, or 40.5%, from $17.5 million in the six months ended 30 June 2017 to $24.6 million in the six months ended 30 June 2018. The increase was primarily due to a decrease in deposits required as security for performance guarantees granted by banks on behalf of the Group.

Net cash flows used in financing activities

The Group's net cash flow used in financing activities decreased by $0.6 million, or 4.4%, from $13.2 million in the six months ended 30 June 2017 to $12.6 million in the six months ended 30 June 2018. The decrease was primarily due refinancing of the Group's 2016 Term Loan and Mezzanine loan in 2017. See Section 7 "*Borrowings*" below for additional information.

Years ended 31 December 2017 and 2016

Net cash flows from operating activities

The Group's net cash flow from operating activities increased by $5.3 million, or 12.0%, from $44.3 million in the year ended 31 December 2016 to $49.6 million in the year ended 31 December 2017. The increase was primarily due to improvement in the result of operations in 2017, partially offset by an increase in working capital as a result of the high volume in the fourth quarter of 2017.

Net cash flows used in investing activities

The Group's net cash flow used in investing activities increased by $10.5 million, or 49.4%, from $21.2 million in the year ended 31 December 2016 to $31.7 million in the year ended 31 December 2017. The increase was primarily due to an increase in development expenditure for intangible assets.

Net cash flows used in financing activities

The Group's net cash flow used in financing activities increased by $4.0 million, or 22.1%, from $18.0 million in the year ended 31 December 2016 to $21.9 million in the year ended 31 December 2017. The increase was primarily due to increased interest payments as a result of the short-term extension of the Group's 2016 Term Loan and Mezzanine loan in 2017 at a higher interest rate.

Years ended 31 December 2016 and 2015

Net cash flows from operating activities

The Group's net cash flow from operating activities increased by $3.7 million, or 9.1%, from $40.6 million in the year ended 31 December 2015 to $44.3 million in the year ended 31 December 2016. The increase was primarily due to the improvement in operating profit in 2016 compared to 2015.

Net cash flows used in investing activities

The Group's net cash flow used in investing activities decreased by $5.2 million, or 19.5%, from $26.4 million in the year-ended 31 December 2015 to $21.2 million in the year ended 31 December 2016. The decrease was primarily due to a decrease in deposits required as security for performance guarantees granted by banks on behalf of the Group.

Net cash flows used in financing activities

The Group's net cash flow used in financing activities decreased by $1.0 million, or 5.1%, from $18.9 million in the year ended 31 December 2015 to $18.0 million in the year ended 31 December 2016. The decrease was primarily due to a reduction in the payment of interest on the Group's loans, as $3.0 million was paid on account of accrued PIK interest in 2015.

7. BORROWINGS

As at 30 June 2018, the Group had borrowings (defined as outstanding term loan principal plus short-term loans) of $153.8 million. The table below sets forth the Group's total borrowings as at 30 June 2018.

	30 June 2018
	(in $ millions)
Term loan	153.0
Short term loans	0.8
Total	153.8

On 18 May 2016, the Company, together with other members of the Group, the original guarantors, and ECI Telecom Ltd. as an original borrower, and ECI Telecom Holdings B.V. as an additional borrower, and both as co-guarantors, entered into an Amendment to a Revolving Loan Facilities Agreement among, *inter alios*, the Lenders party thereto, Credit Suisse AG, Cayman Island branch as administrative agent and collateral agent (the "**2016 Term Loan**") which refinanced a previous Revolving Loan Facility Agreement dated 2 May 2013. In addition, in June 2016 ECI Telecom Ltd. and ECI Telecom Holdings B.V. as borrowers signed a Second Amended and Restated Loan Agreement ("**2016 Mezzanine Agreement**") with the junior lenders parties thereto which refinanced a previous mezzanine facility agreement with one of the junior lenders. The 2016 Term Loan and the 2016 Mezzanine Agreement were amended several times in 2017 and 2018 to extend the termination date of the 2016 Term Loan and the 2016 Mezzanine Agreement and changed some of the terms and conditions. As a result of the extension, the Group agreed to pay a higher interest rate on the 2016 Term Loan and the 2016 Mezzanine Agreement. Further, ECI Telecom Ltd. had a short term loan as a borrower with an Israeli bank in the amount of $27.8 million.

On 14 March 2018, the Company and ECI Telecom Ltd, as parent (and, together with the Company, the original guarantors), and ECI Telecom Holdings B.V., as borrower, entered into a senior facilities agreement among, *inter alios*, Promontoria Holding 206 B.V. and JP Morgan Securities PLC, as arrangers, and Promontoria Holding 206 B.V., as agent and security agent, for the Term Loan. See Section 11 of Part 11: "*Additional Information*" of this Registration Document for a more detailed description of the Term Loan. The cash interest rate on the Term Loan is LIBOR plus 4.50% per annum and payment-in-kind ("**PIK**") interest is 8.5% per annum. The proceeds from the Term Loan were used to refinance the Group's 2016 Term Loan, Mezzanine Loan and the Israeli bank short term loan, and the remaining amounts were contributed by a certain lender in consideration for preferred shares, in addition to capital contribution by the Group's shareholders.

As at 30 June 2018, the Group has short term loans amounting to $780,000 drawn under lines of credit with local banks in China. These lines of credit serve for the issuance of bank bonds and guarantees and short term working capital loans.

8. CONTRACTUAL COMMITMENTS

The following are the Group's contractual maturities of financial liabilities as at 30 June 2018 at undiscounted amounts and based on the future rates forecasted at the reporting date, including estimated interest payments.

	Contractual Commitments	6 months or less	6–12 months	1–2 years	3–6 years
		(in $ millions)			
Short-term loans	0.8	0.8	—	—	—
Trade payables	74.5	74.5	—	—	—
Other payables	58.1	58.1	—	—	—
Finance lease liability (including current maturity)	30.0	4.5	3.7	11.5	10.3
Royalties payable to Israel Innovation Authority (including current maturity)	50.2	3.5	4.2	18.6	23.9
Long-term loans (including current maturity)	300.1	8.4	5.9	29.7	255.9
Other long-term balances	0.1	—	—	0.1	—
Total	**513.9**	**149.9**	**13.8**	**60.1**	**290.1**

9. OFF-BALANCE SHEET ITEMS

The Group currently engages in off-balance sheet financing arrangements in the form of factoring of part of its trade receivables, as well as providing guarantees to support its performance obligations, see Section G and H of Note 24 of Sections B and C of the Part 9: "*Historical Financial Information*" of this Registration Document. The Group currently engages in off-balance sheet financing arrangements in the form of factoring of part of its trade receivables, as well as providing guarantees to support its performance obligations, see Sections G and H of Note 24 of Sections B and C of Part 11: "*Historical Financial Information*" of this Registration Document. In addition, the Group also has certain contingent liabilities with respect to certain legal claims as well as certain purchase commitments, see Sections A and B of Note 25 of Sections B and C of Part 11: "*Historical Financial Information*" of this Registration Document. Other than as described above, the Group does not engage in off-balance sheet financing arrangements. In addition, the Group does not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

Other than as described above, the Group does not engage in off-balance sheet financing arrangements. In addition, the Group does not have any interest in entities referred to as variable interest entities, which includes special purpose entities and other structured finance entities.

10. CRITICAL ACCOUNTING POLICIES AND ESTIMATES

For a summary of, and additional information regarding, the Group's significant accounting policies, please see the Notes in Sections B and C of Part 9: "*Historical Financial Information*" of this Registration Document.

11. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The principal categories of financial risk to which the Group is exposed are credit risk, liquidity risk and market risk (primarily foreign currency risk).

Credit risk

The Company monitors the Group's exposure to credit risk on a regular basis.

Cash, deposits and restricted cash are deposited in highly-rated financial institutions, and the Group also maintains a policy to avoid concentration of risk that may arise from making deposits with one financial institution.

The Group's exposure to credit risk in respect of trade and other receivables is influenced mainly by the individual characteristics of each customer. The Company estimates that the exposure in respect of credit to customers is limited due to the fact that most customers are large companies with high credit ratings, and also the large number of customers and their geographical spread. In addition, trade receivables are for a major part secured by trade risk insurance policies or by letters of credit issued by highly rated financial institutions. These policies cover political risk and moratorium, as well as customer insolvency and financial risk.

The Company monitors regularly customer debts, and the financial statements include provisions for doubtful debts, which properly reflect, in the Company's estimation, the loss inherent in specific customers' debts the collection of which is doubtful.

See Note 4 of Sections B and C of Part 9: "*Historical Financial Information*" of this Registration Document for revenues attributable to sales transactions with major customers.

Liquidity risk

Cash flow forecasts are prepared by the Group on both an individual company basis and a consolidated basis. The Group prepares and reviews forecasts of its liquidity requirements to determine whether there is sufficient cash for its operating needs, and seeks to ensure that at all times the Group has sufficient unused credit facilities so that the Group does not exceed its credit limits and is in compliance with its financial covenants. These forecasts take into consideration matters such as compliance with required financial covenants, compliance with certain liquidity ratios, and compliance with external requirements such as laws or regulation.

See Note 19 of Sections B and C of Part 9: "*Historical Financial Information*" of this Registration Document for information about the terms of the loans received by the Group. See also Section 8 of this Part 8: "*Operating and Financial Review*".

Market risk

Currency risk

The Group is exposed to currency risk on sales, purchases and operating expenditure that are denominated in a currency other than the functional currency of the Group. The principal currency in which these transactions are denominated is NIS.

The Group's exposure to foreign currency risk was as follows:

	30 June 2018					
			Foreign currency			
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	**61,884**	**68,908**	**13,613**	**15,945**	**38,446**	**198,796**
Non-current assets	**315,483**	**6,777**	—	—	**814**	**323,074**
Current liabilities	**(714)**	**(112,004)**	**(15,435)**	**(10,316)**	**(24,962)**	**(163,431)**
Non-current Liabilities	—	**(166,923)**	**(18,330)**	**(2)**	**(2,287)**	**(187,542)**
Total exposure in statement of financial position in respect of financial assets and financial liabilities	**376,653**	**(203,242)**	**(20,152)**	**5,627**	**12,011**	**170,897**

	31 December 2017					
			Foreign currency			
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	**62,678**	**92,282**	**13,953**	**8,812**	**37,962**	**215,687**
Non-current assets	**311,881**	**806**	—	—	**1,150**	**313,837**
Current liabilities	**(7,766)**	**(405,997)**	**(18,630)**	**(1,582)**	**(21,947)**	**(455,922)**
Non-current Liabilities	—	**(26,063)**	**(20,672)**	**(2,823)**	—	**(49,558)**
Total exposure in statement of financial position in respect of financial assets and financial liabilities	**366,793**	**(338,972)**	**(25,349)**	**4,407**	**17,165**	**24,044**

	31 December 2016					
			Foreign currency			
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	62,157	66,414	9,470	9,067	36,357	183,465
Non-current assets	310,912	1,742	—	—	—	312,654
Current liabilities	2,389	334,380	14,732	2,355	24,285	378,141
Non-current Liabilities	—	29,721	19,404	—	2,863	51,988
Total exposure in statement of financial position in respect of financial assets and financial liabilities	370,680	(295,945)	(24,666)	6,712	9,209	65,990

	31 December 2015					
			Foreign currency			
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	51,725	52,108	10,436	8,404	62,147	184,820
Non-current assets	319,273	361	—	—	—	319,634
Current liabilities	2,929	314,374	13,811	2,373	22,919	356,406
Non-current Liabilities	—	25,064	22,443	—	3,238	50,745
Total exposure in statement of financial position in respect of financial assets and financial liabilities	368,069	(286,969)	(25,818)	6,031	35,990	97,303

Sensitivity analysis

A change as at 30 June 2018 in the exchange rates of the ILS and Euro against the dollar at a rate of 5%, would have affected the measurement of financial assets and liabilities denominated in a foreign currency and would have increased or decreased profit or loss and equity by the amounts (after tax) of $1.2 million, ($1.0 million and $2.6 million as at 30 June 2017 and 31 December 2017, respectively) as a result of a change in the NIS, and $0.4 million ($0.3 million and $0.2 million as at 30 June 2017 and 31 December 2017, respectively) as a result of a change in the Euro. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 30 June 2017 and 31 December 2017.

A change as at 31 December 2017 in the exchange rates of the NIS and Euro against the dollar at a rate of 5%, would have affected the measurement of financial assets and liabilities denominated in a foreign currency and would have increased or decreased profit or loss and equity by the amounts (after tax) of $2.6 million, ($2.5 million and $2.5 million as at 31 December 2016 and 2015, respectively) as a result of a change in the ILS, and $0.2 million ($0.3 million and $0.3 million as at 31 December 2016 and 2015, respectively) as a result of a change in the Euro. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably possible at 31 December 2017. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis was performed on the same basis for 2016 and 2015.

12. RECENT ACCOUNTING PRONOUNCEMENTS

For a summary of, and additional information regarding, the Group's recent accounting pronouncements, please see Note 2 in Sections B and C of Part 9: "*Historical Financial Information*" of this Registration Document.

Part 9
HISTORICAL FINANCIAL INFORMATION

1. SECTION A—ACCOUNTANT'S REPORT RELATING TO HISTORICAL FINANCIAL INFORMATION

The Directors
ECI Telecom Group Ltd.
30 Hasivim Street
Petach-Tikva 4959388
Israel

20 September 2018

Ladies and Gentlemen

ECI Telecom Group Ltd.

We report on the consolidated financial information of ECI Telecom Group Ltd. and its subsidiaries ("the Company") for the three years ended 31 December 2017 and the six months ended 30 June 2018 set out on pages 87 to 169. This financial information has been prepared for inclusion in the registration document dated 20 September 2018 of ECI Telecom Group Ltd. on the basis of the accounting policies set out in note 2 to the financial information. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose. We have not audited or reviewed the financial information for the six months ended 30 June 2017 which has been included for comparative purposes only, and accordingly do not express an opinion thereon.

Responsibilities

The Directors of the Company are responsible for preparing the financial information on the basis of preparation set out in Note 2 to the financial information and in accordance with International Financial Reporting Standards.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Item 1.2 of Annex I to the Prospectus Directive Regulation to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the registration document.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgments made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the consolidated financial information gives, for the purposes of the registration document dated 20 September 2018, a true and fair view of the state of affairs of ECI Telecom Group Ltd. as at 31 December 2015, 31 December 2016, 31 December 2017 and 30 June 2018 and of its consolidated losses, cash flows and changes in equity for the three years ended 31 December 2017 and the six months ended 30 June 2018, in accordance with the basis of preparation set out in note 2 and in accordance with International Financial Reporting Standards as above.

Declaration

For the purposes of Item 1.2 of Annex I to the Prospectus Directive Regulation we are responsible for this report as part of the registration document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the registration document in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully,

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International

2. SECTION B—FULL YEAR HISTORICAL FINANCIAL INFORMATION

Consolidated Statements of Financial Position as at 31 December

	Note	2017	2016	2015
		$ in thousands	$ in thousands	$ in thousands
Assets				
Cash and cash equivalents		**26,236**	29,793	25,995
Restricted cash		**12,994**	10,834	16,027
Trade receivables	15	**91,289**	67,766	75,660
Other receivables	15	**24,740**	13,694	14,658
Current tax receivables	10	**1,518**	2,000	2,728
Inventory	14	**58,910**	59,378	49,752
Total current assets		**215,687**	183,465	184,820
Trade and other receivables	15	**1,956**	1,742	361
Fixed assets	11	**52,704**	54,648	60,798
Capitalised development costs	12	**39,991**	35,484	34,969
Intangible assets	12	**11,537**	13,406	16,435
Goodwill	12	**205,000**	205,000	205,000
Deferred tax assets	10	**2,649**	2,374	2,071
Total non-current assets		**313,837**	312,654	319,634
Total assets		**529,524**	496,119	504,454
Liabilities				
Loan and borrowings	19	**203,969**	203,509	190,370
Trade payables		**87,774**	49,813	43,763
Other payables	23	**141,832**	106,892	103,911
Royalties payable to the Israel Innovation Authority	25	**8,542**	1,770	4,668
Current tax liabilities	10	**156**	1,615	1,567
Lease liabilities	20	**8,314**	7,959	7,954
Provisions	22	**5,335**	6,583	4,173
Total current liabilities		**455,922**	378,141	356,406
Royalties payable to Israel Innovation Authority		**24,064**	27,997	24,582
Employee benefits	18	**6,943**	6,149	6,354
Other long-term liabilities		**302**	53	219
Lease liabilities	20	**17,082**	16,622	19,590
Provisions	22	**1,167**	1,167	—
Total non-current liabilities		**49,558**	51,988	50,745
Total liabilities		**505,480**	430,129	407,151
Shareholders' equity	16			
Share capital		**98**	98	98
Share premium		**1,246,905**	1,246,905	1,246,905
Capital note		**37,887**	37,887	37,887
Capital reserves		**87,998**	87,998	87,998
Accumulated deficit		**(1,348,844)**	(1,306,898)	(1,275,585)
Total shareholders' equity		**24,044**	65,990	97,303
Total liabilities and shareholders' equity		**529,524**	496,119	504,454

Consolidated Income Statements for the Year Ended 31 December

	Note	2017	2016	2015
		$ in thousands	$ in thousands	$ in thousands
Revenues	4	**367,207**	326,029	335,106
Costs of sales	5	**237,365**	192,091	209,546
Gross profit		**129,842**	133,938	125,560
Research and development expenses, net	6	**43,089**	41,820	42,945
Selling and marketing expenses	7	**54,837**	52,917	52,213
General and administrative expenses	8	**18,708**	21,621	19,235
Amortisation of intangible assets	12	**—**	1,118	1,902
Reorganisation expenses	22	**—**	3,700	279
Operating income		**13,208**	12,762	8,986
Financing income		**41**	1,944	1,096
Financing expenses		**(52,271)**	(42,640)	(34,084)
Financing expenses, net	9	**(52,230)**	(40,696)	(32,988)
Loss before taxes on income		**(39,022)**	(27,934)	(24,002)
Taxes on income	10	**(2,821)**	(3,336)	(3,311)
Loss for the year		**(41,843)**	(31,270)	(27,313)
Earnings per share				
Basic and dilutive loss per share (in dollar)	17	**(1.24)**	(0.92)	(0.81)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**50,316**	50,640	53,346

Consolidated Statements of Other Comprehensive Income for the Year Ended 31 December

	Note	2017	2016	2015
		$ in thousands	$ in thousands	$ in thousands
Loss for the year		**(41,843)**	(31,270)	(27,313)
Other comprehensive income (loss) items that will not be transferred to profit or loss				
Re-measurement of defined benefit plan	18	**(103)**	(43)	29
Total comprehensive loss for the year		**(41,946)**	(31,313)	(27,284)

Consolidated Statements of Changes in Equity for the Year Ended 31 December

	Number of shares	Share capital	Share premium	Capital note	Capital reserves	Accumulated deficit	Total
				$ in thousands			
Balance at 1 January 2015	33,870,124	98	1,246,905	37,887	87,998	(1,248,301)	124,587
Changes during the period—Loss for the year	—	—	—	—	—	(27,313)	(27,313)
Re-measurement of defined benefits plan	—	—	—	—	—	29	29
Balance at 31 December 2015	33,870,124	98	1,246,905	37,887	87,998	(1,275,585)	97,303
Changes during the period—Loss for the year	—	—	—	—	—	(31,270)	(31,270)
Re-measurement of defined benefits plan	—	—	—	—	—	(43)	(43)
Balance at 31 December 2016	33,870,124	98	1,246,905	37,887	87,998	(1,306,898)	65,990
Changes during the period—Loss for the year	—	—	—	—	—	**(41,843)**	**(41,843)**
Re-measurement of defined benefits plan	—	—	—	—	—	**(103)**	**(103)**
Balance at 31 December 2017	**33,870,124**	**98**	**1,246,905**	**37,887**	**87,998**	**(1,348,844)**	**24,044**

Consolidated Statements of Cash Flows for the Year Ended 31 December

	Note	2017	2016	2015
		$ in thousands	$ in thousands	$ in thousands
Cash flows from (used in) operating activities				
Loss for the year		**(41,843)**	(31,270)	(27,313)
Adjustments for:				
Depreciation and amortisation		**37,107**	37,878	44,360
Other non-cash, net		**(824)**	1,489	553
Income tax expense	10	**2,821**	3,336	3,311
Taxes paid in cash		**(3,432)**	(3,224)	(3,734)
Interest paid in cash		**13,415**	7,095	10,536
Change in trade receivables including non-current maturities of long-term receivables		**(23,737)**	6,513	10,461
Change in other receivables		**(11,046)**	964	(731)
Change in inventory		**(1,265)**	(10,465)	(4,004)
Change in trade and payables		**37,961**	6,050	(5,330)
Change in other payables		**33,335**	18,569	9,727
Change in provisions		**(1,248)**	3,577	(153)
Change in employee benefits		**691**	(248)	(575)
Change in other long-term liabilities		**249**	(166)	(25)
Change in lease liabilities		**4,840**	2,849	2,772
Change in royalties payable to the Israel Innovation Authority		**2,560**	1,322	719
Net cash flow from operating activities		**49,584**	44,269	40,574
Cash flows from (used in) investing activities				
Acquisition of fixed assets and software	11, 12	**(6,209)**	(6,783)	(7,333)
Proceeds from sale of fixed assets		—	—	11
Proceeds from sale of investments		—	—	66
Development expenditure recognised as intangible assets	12	**(23,583)**	(18,716)	(18,867)
Investments in deposits, net		**(1,956)**	4,254	(283)
Net cash used in investing activities		**(31,748)**	(21,245)	(26,406)
Net cash inflow before financing activities		**17,836**	23,024	14,168
Cash flows from (used in) financing activities				
Increase in short-term credit, net	25	**460**	—	—
Grants received from the Israel Innovation Authority		**2,084**	3,982	5,048
Royalties paid to the Israel Innovation Authority		**(1,805)**	(4,787)	(4,430)
Transaction costs related to loans taken	25	**(289)**	(1,152)	(150)
Payment of finance lease liabilities	25	**(8,962)**	(8,906)	(8,865)
Interest paid in cash		**(13,415)**	(7,095)	(10,536)
Net cash used in financing activities		**(21,927)**	(17,958)	(18,933)
Effect of exchange rate fluctuations on cash and cash equivalents		**534**	(1,268)	(1,301)
Net increase (decrease) in cash and cash equivalents		**(3,557)**	3,798	(6,066)
Cash and cash equivalents as at the beginning of the year		**29,793**	25,995	32,061
Cash and cash equivalents as at the end of the year	21	**26,236**	29,793	25,995

1. NOTE 1—GENERAL

A. Reporting entity

ECI Telecom Group Ltd. ("**ECI Telecom Group**") is an Israeli company that was incorporated in 2007. The address of the registered office is 30 Hasivim Street Petah-Tikva, Israel. ECI Telecom Group and its subsidiaries (collectively, the "**Company**"), is a global provider of ELASTIC Network® solutions for service providers, Cloud Solution Providers, utilities as well as data centre operators. These solutions include scalable, transport and data networking infrastructure platforms for optical and digital telecommunications networks, as well as broadband access systems. Along with its long-standing, industry-proven packet-optical transport and broadband access systems, The Company offers a variety of SDN/NFV applications, end-to-end network management, a comprehensive cyber security solution, and a range of professional services. The Company's products are designed to create and manage bandwidth, maximize revenues for network operators, reduce operating expenses, expand capacity, improve performance and enable new revenue-generating services. The Company currently operates in one operating segment.

Subsequent to the balance sheet date, the Company refinanced its outstanding debt (the "**Debt Refinancing**"). As part of the refinancing, the Company's debt obligations were either refinanced on a long-term basis or replaced with equity securities, and as a result, the Company believes that it will be able to meet its financial obligations, as they come due throughout calendar years 2018 and 2019.

B. Definitions

In these financial statements—

- **ECI Telecom Group**—ECI Telecom Group Ltd.
- **The Company**—ECI Telecom Group and its subsidiaries.
- **Subsidiaries**—Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of ECI Telecom Group.
- **Related party**—Within its meaning in IAS 24 (2009), "Related Party Disclosures".

2. NOTE 2—BASIS OF PREPARATION

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

B. Functional and presentation currency

These consolidated financial statements are presented in U.S dollars (herein under "**dollar**" or "**USD**"), which is the Company's functional currency, and have been rounded to the nearest thousand. The dollar is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- Certain financial instruments and derivatives;
- Inventories measured at the lower of cost and net realisable value;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities for employee benefits.
- Liability to pay royalties on Government grants.

For further information regarding the measurement of these assets and liabilities see Note 3 regarding significant accounting policies.

D. Use of estimates and judgments

Use of estimates

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

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

Information about assumptions made by the Company with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year are included in the following notes:

Estimate	Principal assumptions	Possible effects	Reference
Recoverable amount of goodwill	The pre-tax discount rate and a budgeted EBITDA growth rate	Change in impairment loss	see Note 12 regarding intangible assets
Post-employment employee benefits	Actuarial assumptions such as the discount rate, future salary increases and the future pension increase	An increase or decrease in the post-employment defined benefit obligation	see Note 18 regarding employee benefits
Assessment of probability of contingent liabilities	Whether it is more likely than not that an outflow of economic resources will be required in respect of legal claims pending against the Company and its investees	Reversal or creation of a provision for a claim	see Note 25 regarding contingent liabilities
Fair value measurement of non-trading derivatives	Unobservable inputs used in the valuation model (discount rates and probability assigned to the occurrence of certain events)	Profit or loss from a change in the fair value of derivative financial instruments	see Note 24 regarding financial instruments
Uncertain tax positions	The extent of the certainty that the Company's tax positions will be accepted (uncertain tax positions) and the risk of incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Company's past experience	Recognition of additional income tax expenses or tax income	see Note 10 regarding taxes on income
Discount rate of lease liability	The Company discounts the lease payments using its incremental borrowing rate.	An increase or decrease in the lease liability, right-of-use asset and financing expenses recognised.	See Note 3 regarding leases
Expected future royalties and discount rates applied to liabilities to pay royalties on Government grants	The Company makes assumptions regarding the expected future royalties and the discount rates to be applied.	An increase or decrease in the royalties liability and research and development and financing expenses recognised.	See Note 3 regarding grants

Determination of fair value

Preparation of the financial statements requires the Company to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in Note 24.

When determining the fair value of an asset or liability, the Company uses observable market data as much as possible. There are three levels of fair value measurement in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

E. Changes in accounting policies

(1) Initial application of amendments to standards

As from 1 January 2017 the Company applies the amendments to the standards described below:

Amendment	The requirements of the publication	Effective date and transitional provisions	Effects
(1) Amendment to IAS 12, *Income Taxes: Recognition of Deferred Tax Assets for Unrealised Losses*	The Amendment clarifies that for purposes of recognising a deferred tax asset, the effect of reversal of deductible temporary differences should be excluded when assessing future taxable profit. This assessment should be made separately for different types of deductible temporary differences if tax laws contain restrictions on the types of taxable profit from which losses can be deducted.	The Amendment is applicable retrospectively.	No material effect on the Company's consolidated financial statements.
(2) Amendment to IAS 7, *Statement of Cash Flows*	According to the Amendment, an entity is required to provide disclosures that will enable the users of the financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.	The Amendment is applicable prospectively.	No material effect on the Company's consolidated financial statements.

(2) Initial application of new standards

(a) As from 1 January 2017 the Company has early adopted IFRS 15, *Revenues from Contracts with Customers* ("**IFRS 15**"), which sets out guidance for revenue recognition.

The Company elected to apply IFRS 15 using the modified retrospective approach, as from the initial date of application, without restatement of comparative data.

IFRS 15 introduces a new five step model for recognising revenue from contracts with customers:

(a) Identifying the contract with the customer.

(b) Identifying distinct performance obligations in the contract.

(c) Determining the transaction price.

(d) Allocating the transaction price to distinct performance obligations.

(e) Recognising revenue when the performance obligations are satisfied.

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

(b) As part of the initial application of the standard, the Company has chosen to apply the expedients in the transitional provisions, according to which the standard is applied only for contracts not yet complete at the transition date.

The new accounting policies for recognising revenue that were applied as from 1 January 2017 following the application of IFRS 15 did not have a material effect on the Company's financial statements. In addition, implementation of IFRS 15 had no material effect on retained earnings as at the transition date.

As from 1 January 2017 the Company has early adopted IFRS 16, *Leases* ("**IFRS 16**"), which sets out guidance for the accounting treatment for leases.

The main effect of the adoption of IFRS 16 is reflected in the annulment of the existing requirement from lessees to classify leases as operating (off-balance sheet) or finance leases and the presentation of a unified model for the accounting treatment of all leases similar to the accounting treatment of finance leases in the previous accounting standard for leases, IAS 17.

In accordance with IFRS 16, for agreements in which the Company is the lessee, the Company applies a unified accounting model, under which it recognises a right-of-use asset and a lease liability at the inception of the lease contract for all the leases in which the Company has a right to control identified assets for a specified period of time. Accordingly, the Company recognises depreciation and amortisation expenses in respect of a right-of-use asset, examines the right-of-use asset for impairment in accordance with IAS 36, *Impairment of Assets*, and recognises financing expenses on the lease liability. Therefore, as from the date of initial application, lease expenses relating to assets leased under an operating lease, which were presented as part of operating expenses in the income statement, are recognised as assets that are depreciated in the depreciation and amortisation expense item, within profit and loss.

The Company applied IFRS 16 using the Full Retrospective approach with a restatement of comparative information. Therefore, application of IFRS 16 resulted in a decrease in the balance of the Company's equity and retained earnings as at 31 December 2016 in the amount of $1,694 thousand (as at 31 December 2015 in the amount of $3,334 thousand). In addition, lease expenses in 2016 and 2015 relating to assets leased under an operating lease in the amount of $7,462 thousand and $7,420 thousand, respectively, were recognised as assets. Additional depreciation and amortisation expenses in 2016 and 2015, as a result of the retrospective application of IFRS 16, amounted to $6,567 thousand and $6,645 thousand.

See Note 3M regarding principal accounting policies applied for leases, which were applied as from the transition date using the full retrospective approach, following the application of IFRS 16.

3. NOTE 3—SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by the Company, except as explained in Note 2, Basis of Preparation, under the section addressing changes in accounting policies and changes in classification.

A. Basis of consolidation

(1) Subsidiaries

Subsidiaries are entities controlled by ECI Telecom Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost.

(2) Transactions eliminated on consolidation

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

B. Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

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

Foreign currency differences arising on translation are generally recognised in profit or loss. The income and expenses of foreign operations are translated to USD at exchange rates at the dates of the transactions.

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition of financial assets

The Company initially recognises receivables and deposits on the date that they are created. Non-derivative financial assets comprise trade and other receivables, restricted cash, and cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognised when the contractual rights of the Company to the cash flows from the asset expire, or the Company transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company, if any, is recognised as a separate asset or liability.

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

The Company classifies its financial assets into the following category:

- Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at historical cost, less any impairment losses. Receivables comprise cash and cash equivalents, restricted cash, and trade and other receivables.
- Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments or deposits (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.
- Restricted cash includes deposits with financial institutions that are restricted by way of pledge in favour of the said financial institutions to secure their potential obligations under certain bonds issued by them to the Company customers as a security for the Company's contractual obligations under tenders and contracts as well as for the Company's obligation under the lease agreement of its headquarter facility in Israel.

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include loans and borrowings from banks and others, finance lease liabilities, royalties payable to the Israel Innovation Authority ("**IIA**"), and trade and other payables.

Initial recognition of financial liabilities

The Company initially recognises loans and borrowings issued on the date that they originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognised as an asset in the framework of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortised as financing expenses in the statement of income when the issuance is no longer expected to occur.

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation of the Company, as specified in the agreement, expires or when it is discharged or cancelled.

(3) Derivatives that do not serve hedging purposes

The changes in fair value of these derivatives are recognised in profit or loss, as financing income or expense.

Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of separable embedded derivatives are recognised in profit or loss, as financing income or expense.

D. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognised as an asset in deferred expenses in the statement of financial position. The costs are deducted from equity upon the initial recognition of the equity instruments, or are amortised as financing expenses in the statement of income when the issuance is no longer expected to take place.

E. Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. The cost of fixed assets includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings — 40 years
- Machinery and equipment — 3 to 10 years (mainly 10 years)
- Office furniture and equipment — 10 to 14 years
- Computers — 3 to 5 years
- Leasehold improvements — The shorter of the lease term and the useful life
- Vehicles — 6 years

For details on the accounting policy applied in respect of right-of-use assets arising from leases see Note 3M.

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

F. Intangible assets

(1) Goodwill

The goodwill was created upon the acquisition of all the shares of ECI Telecom Ltd. that took place in 2007. In subsequent periods goodwill is measured at cost less accumulated impairment losses.

Once a year and on the same date, or more frequently if there are indications of impairment, the Company estimates the recoverable amount of the goodwill. In 2017, 2016 and 2015, no impairment of goodwill was recognised.

(2) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

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

In subsequent periods, capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses, if any. The Company periodically estimates the recoverability of development costs. The recoverable amount as of 31 December 2017, 2016 and 2015 was estimated to be higher than the respective carrying amounts and no provision for impairment was required.

(3) Other intangible assets

Other intangible assets, that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses, if any.

(4) Subsequent expenditure

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

(5) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use. Goodwill and intangible assets having an indefinite useful life are not systematically amortised but are tested for impairment at least once a year. Internally generated intangible assets are not systematically amortised as long as they are not available for use or sale. Accordingly, these intangible assets, such as capitalised development costs, are tested for impairment at least once a year, until such date as they are available for use or sale.

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

- Core technology and Patents — 7 to 10 years
- Capitalised development costs — 3 years
- Software products — 3 to 5 years

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

The Company examines the useful life of an intangible asset that is not periodically amortised at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

G. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving average, and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

H. Impairment

(1) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

- Objective evidence that financial assets are impaired can include:
- Default by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy;

The Company considers evidence of impairment for trade and other receivables at both a specific asset and collective level. All individually significant trade and other receivables are assessed for specific impairment. All individually significant trade and other receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but has not yet been identified. Trade and other receivables that are not individually significant are collectively assessed for impairment by grouping together loans, receivables and held-to-maturity investments with similar risk characteristics.

In assessing collective impairment the Company uses historical data for the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

(2) Non-financial assets

Timing of impairment testing

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Once a year and on the same date, or more frequently if there are indications of impairment, the Company estimates the recoverable amount of the goodwill.

Recognition of impairment loss

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. As regards goodwill, an impairment loss is recognised when the carrying amount of the cash generating unit, which includes the goodwill, exceeds its recoverable amount.

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment losses were recognised in prior periods, if any, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

I. Employee benefits

(1) Post-employment benefits

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

(a) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for

contributions to defined contribution pension plans or insurance policies are recognised as an expense in profit or loss in the periods during which related services are rendered by employees.

The majority of the Company's agreements with employees in Israel are in accordance with Section 14 of the Severance Pay Law, 1963 ("**Section 14**"), which is categorised as a Defined Contribution Plan.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate used for the Israeli defined benefit plans is the yield at the reporting date on high quality shekel-denominated corporate debentures, that have maturity dates approximating the terms of the Company's obligations. The calculation is performed at least annually by a qualified actuary using the projected unit credit method.

Re-measurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Re-measurements are recognised immediately directly in retained earnings through other comprehensive income.

Interest costs on a defined benefit obligations and interest income on plan assets that were recognised in profit or loss are presented under financing income and expenses, respectively.

The Company's liability for severance pay to its Israel-based employees not under Section 14, and employees in countries other than Israel is calculated pursuant to Israel's Severance Pay Law, or in other countries pursuant to local laws, and in accordance with the principles of accounting for defined benefit plans. The liability in Israel is mostly covered by amounts the Company deposits in external pension and severance funds managed by unrelated financial institutions and to a lesser extent by the unfunded provision.

(2) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as vacation leave).

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

(3) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The Company's share-based payment awards will be exercisable following the lapse of their vesting periods and the earlier of (i) an IPO; or (ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, expense will be recorded in respect of these awards only when such an event becomes probable.

J. Provisions

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

(1) Warrants

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

(2) Reorganisation

A provision for reorganisation is recognised when the Company has approved a detailed and formal reorganisation plan, and the reorganisation either has commenced or has been announced publicly. The provision includes direct expenditures caused by the reorganisation and that are necessary for the reorganisation, and which are not associated with the continuing activities of the Company.

(3) Legal claims

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

K. Revenue

(1) The following accounting policy was applied by the Company in periods ending before 1 January 2017:

- Revenue from the sale of the Company's products in the ordinary course of business is measured at the fair value of the consideration received or receivable. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.
- When the credit period is longer than the accepted credit period in the industry, the Company recognises the future consideration discounted to its present value using the risk rate of the customer. The difference between the fair value and the nominal amount of the future consideration is recognised as interest revenue over the excess credit period.
- Revenue is recognised when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. Transfers of risks and rewards vary depending on the individual terms of the contract of sale.
- Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. Revenues from maintenance contracts for the Company's products and software and separately priced extended warranty contracts are usually recognised ratably over the contract period.
- When two or more revenue generating activities or deliverables are sold under a single arrangement, each deliverable that is considered to be a separate unit of account is accounted for separately. The allocation of consideration from a revenue arrangement to its separate units of account is based on the relative fair values of each unit. If the fair value of the delivered item is not reliably measurable, then revenue is allocated based on the difference between the total arrangement consideration and the fair value of the undelivered item.

(2) As from 1 January 2017 the Company has adopted IFRS 15 as set out in Note 2.

The Company recognises revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer. This is performed based on a five step model for recognising revenue from contracts with customers:

(a) Identifying the contract with the customer.

(b) Identifying distinct performance obligations in the contract.

(c) Determining the transaction price.

(d) Allocating the transaction price to distinct performance obligations.

(e) Recognising revenue when the performance obligations are satisfied.

(1) Identifying the contract

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

(a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;

(b) The Company can identify the rights of each party in relation to the goods or services that will be transferred;

(c) The Company can identify the payment terms for the goods or services that will be transferred;

(d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and

(e) It is probable that the consideration, to which the Company is entitled to in exchange for the goods or services transferred to the customer, will be collected.

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

(2) Identifying distinct performance obligations

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

(a) Goods or services (or a bundle of goods or services) that are distinct; or

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

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

(3) Determining the transaction price

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

In order to measure the transaction price, the Company adjusts the amount of the promised consideration in respect of the effects of a significant financing component. When assessing whether a contract contains a significant financing component, the Company examines, inter alia, the expected length of time between the date the Company transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, the Company recognises the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the contract's inception date. The financing component is recognised as interest income over the period, which is calculated according to the effective interest method.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less, the Company applies the practical expedient included in the standard and does not separate a significant financing component.

(4) Satisfaction of performance obligations

Revenue is recognised when the Company satisfies a performance obligation by transferring to the customer control over promised goods or services. When control over the goods or services is transferred at a point in time, revenue is recognised only when the product is handed over to the customer, or the service has been provided. When the Company transfers control over time, such as in service arrangements, it recognises revenue over time.

The Company recognises revenues over time by measuring progress towards full satisfaction of the performance obligation in a manner that reflects the Company's performance in transferring the control over the goods or services that were promised to the customer.

Warranties are provided only in order to ensure the quality of the work and compliance with the specifications agreed between the parties, and do not constitute an additional service to the customer. Therefore, the Company does not identify the warranty as a distinct performance obligation but rather accounts for it in accordance with the guidance in IAS 37 and recognises a provision for warranty at the estimated cost of such services.

Revenue from sales to resellers

The Company makes certain sales through resellers. The Company recognises revenues from sales to resellers, assuming all other criteria for revenue recognition are met and provided that there is no contractual right of return, either (i) when it receives adequate collateral (which in many cases is a Letter of Credit) from the reseller to secure payment to the Company, or (ii) in certain instances where the Company has an established ongoing relationship with the reseller and a proven track record of payments, when it receives written evidence of the identity of the end-user and the existence of an agreement by the end-user to purchase the product from the reseller (e.g. a copy of a purchase order) or (iii) in instances where the reseller is a major internationally known corporation and the Company has an established ongoing relationship with such reseller and a proven track record of payments, upon delivery of the products to the reseller. When the collectability from the reseller is not reasonably assured, revenue is recognised on a cash basis, provided that the reseller has ultimately sold the products to an end-user.

L. Government grants

Grants are recognised initially at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants from the IIA in respect of research and development projects are accounted for as forgivable loans according to IAS 20.

Grants received are recognised as a liability according to their fair value on the date of their receipt, estimated at the present value of the future royalties payments, unless on that date it is reasonably certain that the amount received will not be refunded. The present value of the future payments is discounted using an interest rate that is estimated by the Company's management to reflect the risk inherent in the relevant research and development project, future revenues from certain products and their timing. The amount of the liability is re-examined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognised in profit or loss, as part of research and development expenses. The difference between the amount received and the fair value on the date of receiving the grant is recognised as a deduction of research and development expenses.

M. Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of fixed assets (see note 3E). In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

N. Financing income and expenses

Financing expenses comprise interest expense on borrowings, changes in time value of provisions and other financial liabilities, changes in the fair value of derivatives that resulted in net loss in the year, net forex exchange losses, and others. Borrowing costs are recognised in profit or loss using the effective interest method.

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

In the statements of cash flows, interest paid is presented as part of cash flows from financing activities.

O. Income tax expense

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss, or are recognised directly in equity or in other comprehensive income to the extent they relate to items recognised directly in equity or in other comprehensive income.

Current taxes

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

Offset of current tax assets and liabilities

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

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognised when it is more likely than not that the Company will have to use its economic resources to pay the obligation.

Deferred taxes

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

- Certain undistributed earnings of foreign consolidated subsidiaries which are taxable upon distribution by way of dividend, and as no such dividend distribution intention exists.
- Unused tax losses to the extent that it is not probable that future taxable profits will be available against which they can be utilised.

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

A deferred tax asset is recognised for unutilised tax losses, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets that were not recognised are reevaluated at each reporting date and recognised if it has become probable that future taxable profits will be available against which they can be utilised.

Offset of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle deferred tax liabilities and assets on a net basis or their deferred tax assets and liabilities will be realised simultaneously.

P. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury shares, for the effects of all dilutive potential ordinary shares, share options and share options granted to employees.

Q. New standards and interpretations not yet adopted

(1) IFRS 9 (2014), Financial Instruments (hereinafter—"IFRS 9 (2014)")

IFRS 9 (2014) is a final version of the standard, which includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets. This guidance is in addition to IFRS 9 (2013) which was issued in 2013. The Company will adopt IFRS 9 (2014) as from 1 January 2018 without amending the comparative data.

In accordance with IFRS 9 (2014), there are three principal categories for measuring financial assets: amortised cost, fair value through profit and loss and fair value through other comprehensive income.

According to IFRS 9 (2014) the Company will be required to apply a new 'expected credit loss' model for financial debt assets not measured at fair value through profit or loss. The new model is a "forward looking" model that reflects reasonable supportable information that is available without investing unreasonable costs or efforts, with respect to past events, current circumstances, and forecasts regarding future economic circumstances. The new model presents a dual measurement approach for impairment of debt assets: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date. If the credit risk has increased significantly since initial recognition of the financial debt asset, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset. The Company is of the opinion that the effect of the first time application of this new model in 2018 on the financial statements will be immaterial.

(2) IFRIC 22, Foreign Currency Transactions and Advance Consideration

The interpretation provides that the transaction date for the purpose of determining the exchange rate for recording a foreign currency transaction that includes advance consideration is the date of initial recognition of the non-monetary asset/liability from the prepayment. If there are multiple payments or receipts in advance, a transaction date is established for each payment or receipt. IFRIC 22 is applicable for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Company has examined the effect of applying IFRIC 22 on the financial statements and plans to choose the transitional provision alternative of prospective application as from 1 January 2018. The effect on the Company's financial statements is not expected to be material.

(3) IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unutilised tax losses, unutilised tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognise the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is

assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation. The Company is examining the expected effects of its application on the financial statements.

4. NOTE 4—OPERATING SEGMENTS

The Company operates in one business segment only, namely the development, production and marketing of network solutions.

Entity level disclosures

Major customers

Revenues from major customers of the Company, as a percentage of consolidated revenues for the year (when they exceed 10%), are as follows:

	Year ended 31 December		
	2017	**2016**	**2015**
Customer 1	**27%**	19%	12%
Customer 2	**12%**	*	*

* Represents an amount of less than 10%

Revenues by geographical regions

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
EMEA	**116,089**	107,999	129,465
India	**154,961**	122,835	99,937
Israel	**56,709**	39,807	27,938
RoW	**39,448**	55,388	77,766
	367,207	326,029	335,106

Management considers as significant revenues from customers attributed to the group of countries known as EMEA, which includes Europe, Middle East (excluding Israel which is the Company's country of domicile and therefore presented separately) and Africa. Revenues are presented separately for India due to materiality and all other foreign countries are presented in total as RoW (rest of world).

Most of the Company's non-current assets are located in Israel.

Revenues from sale of products and services

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Products	**290,036**	244,578	254,806
Services	**77,171**	81,451	80,300
	367,207	326,029	335,106

5. NOTE 5—COST OF SALES

	Year ended 31 December		
	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Finished products consumed	**155,973**	113,695	124,103
Other operations and logistic costs	**31,689**	29,304	33,724
Service costs	**30,627**	30,891	30,149
Amortisation of development cost capitalised	**19,076**	18,201	21,570
	237,365	192,091	209,546

6. NOTE 6—RESEARCH AND DEVELOPMENT EXPENSES

	Year ended 31 December		
	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Salaries, wages and related expenses (see also Note 18 on employee benefits)	**55,241**	49,792	48,502
Depreciation and amortisation	**7,440**	8,198	9,318
Maintenance of buildings	**5,145**	4,873	4,901
Material expenditure	**1,658**	1,970	3,133
Other research and development expenses	**3,556**	5,414	5,071
Expenses incurred	**73,040**	70,247	70,925
Less development cost capitalised	**(23,583)**	(18,716)	(18,867)
Less participation of the Government of Israel in research and development expenses[1]	**(6,368)**	(9,711)	(9,113)
	43,089	41,820	42,945

(1) For information on a commitment to pay royalties to the government of Israel, see Note 25 on commitments.

7. NOTE 7—SELLING AND MARKETING EXPENSES

	Year ended 31 December		
	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Salaries, wages and related expenses (see also Note 18 on employee benefits)	**31,050**	29,296	27,523
Sales commissions	**7,636**	7,718	10,097
Depreciation and amortisation	**3,639**	3,546	3,256
Maintenance of buildings	**3,534**	3,737	3,675
Travel and related expenses	**4,297**	4,389	3,922
Other selling and marketing expenses	**4,681**	4,231	3,740
	54,837	52,917	52,213

8. NOTE 8—GENERAL AND ADMINISTRATIVE EXPENSES

	Year ended 31 December		
	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Salaries, wages and related expenses (see also Note 18 on employee benefits)	**15,041**	15,034	15,617
Provision for doubtful debts	**156**	2,707	310
Depreciation and amortisation	**2,637**	2,701	2,870
Other general and administrative expenses	**874**	1,179	438
	18,708	21,621	19,235

9. NOTE 9—FINANCING INCOME AND EXPENSES

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Financing income			
Change in fair value of derivatives	**—**	1,728	—
Interest mainly from bank deposits and receivables	**41**	216	1,096
Total financing income	**41**	1,944	1,096
Financing expenses			
Interest expense on loans	**36,650**	30,185	17,954
Interest expense on leases	**2,500**	2,549	2,772
Interest expense on royalties to IIA	**2,560**	1,322	719
Interest expense on other liabilities	**1,046**	429	204
Bank charges and factoring fees	**6,487**	5,016	5,429
Change in fair value of derivatives	—	—	512
Net foreign exchange loss	**2,535**	2,499	5,961
Other	**493**	640	533
Total financing expenses	**52,271**	42,640	34,084
Net financing expenses	**52,230**	40,696	32,988

10. NOTE 10—INCOME TAX

A. Details regarding the tax environment of the Company

(1) Corporate tax rate

(a) Presented hereunder are the tax rates relevant to the Company and its Israeli subsidiaries in the years 2015–2017:

2015–26.5%

2016–25%

2017–24%

On 4 January 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216)—2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from 1 January 2016. As a result of the reduction in the tax rate to 25%, the deferred tax balances as at 1 January 2016 were calculated according to the new tax rate specified in the Law for the Amendment of the Income Tax Ordinance, at the tax rate expected to apply on the date of reversal.

Furthermore, on 22 December 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018)—2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018. As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at 31 December 2017 were calculated at the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

(b) Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "**Investment Law**");

During January 2011 an amendment to the Investment Law (the "**Amendment**") became effective. The Amendment's provisions apply to Preferred Income derived or accrued in 2011 and thereafter by a Preferred Company, per the definition of these terms in the Amendment. Companies can choose not to be included in the scope of the Amendment and to stay in the scope of the Investment Law before its amendment until the end of the benefits period of its approved/beneficiary enterprise.

The amendment provides a uniform and reduced tax rate for all the Company's income entitled to the benefits ("**Preferred Income**"). Starting from tax year 2014, the tax rate on Preferred Income for a company operating in the same area as ECI Telecom Ltd. is 16%.

As part of the 2016 Budget Law, inter alia, the Investment Law was amended such that a company that meets certain criteria ("**Preferred Technology Enterprise**"), starting from 1 January 2017 will benefit

from the tax rate on Preferred Income derived from Intellectual Property, as defined in the amended law, for a company operating in the same area as ECI Telecom Ltd., of 12%. The Company's management believes that ECI Telecom Ltd.'s operations meet the criteria in order to qualify for the benefits of the Preferred Technology Enterprise.

The Amendment also provides that no tax will apply to a dividend distributed out of Preferred Income that is an Israeli resident company shareholder. A tax rate of 20% shall apply to a dividend distributed out of Preferred Income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. A reduced tax rate of 4% shall apply to a dividend distributed out of the income of Preferred Technology Enterprise to a foreign resident company, if 90% or higher of the distributing entity is held directly by foreign entities.

(c) Measurement of results for tax purposes under the Income Tax Law

The measurement of the Company's results for tax purposes is calculated based on the Income Tax Regulations (principles for the bookkeeping of foreign invested companies and of certain partnerships and the determination of their taxable income)—1986. Accordingly, the taxable income or loss is calculated in U.S. dollars.

(d) Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969

The Company is an "Industrial Holding Company" as defined by this law, and as such is entitled, among other benefits, to claim accelerated depreciation of machinery and equipment as prescribed by regulations issued under the inflationary adjustments tax law.

Starting from 2013 tax year, the Company elected to file a consolidated return for tax purposes, together with its subsidiary, ECI Telecom Ltd., in accordance with the provisions of this law.

(e) Non Israeli subsidiaries are taxed based upon tax laws in their countries of residence.

B. Composition of income tax expense (income)

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Current tax expense	**3,126**	3,550	3,342
Deferred tax income	**(305)**	(214)	(31)
Income tax expense	**2,821**	3,336	3,311

C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense:

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Loss before taxes on income	**(39,022)**	(27,934)	(24,002)
Primary tax rate of the Company	**24%**	25%	26.5%
Tax calculated according to the Company's primary tax rate	**(9,365)**	(6,984)	(6,361)
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries	**755**	(2,927)	(177)
Difference between measurement basis of income/expenses for tax purposes and measurement basis of income/expenses for financial and reporting purposes	**5,448**	6,679	4,182
Current year tax losses and benefits for which deferred taxes were not created	**5,289**	6,747	6,596
Taxes in respect of previous years	**(158)**	(484)	(796)
Other differences	**852**	305	(133)
Income tax expense	**2,821**	3,336	3,311

D. Deferred tax assets and liabilities

Deferred taxes are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above. The movement in deferred tax assets and liabilities is attributable to changes recognised in profit and loss.

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Research and development costs, net	**6,751**	5,267	4,724
Vacation pay accruals, severance pay fund, net, and other accruals	**3,000**	2,870	3,824
Deferred tax assets	**9,751**	8,137	8,548
Deferred tax liabilities:			
Capitalised development costs and other intangibles	**6,620**	5,235	5,770
Fixed assets	**482**	528	707
Deferred tax liabilities	**7,102**	5,763	6,477
Deferred tax assets, net	**2,649**	2,374	2,071

As at 31 December 2017, the Company did not create deferred tax assets, mainly for carryforward losses and other temporary differences, in total amount of approximately $531.9 million ($532.4 million and $579.3 million as at 31 December 2016 and 2015, respectively).

E. Carry-forward losses

As at 31 December 2017, the Company and its subsidiaries had, for tax purposes, operating loss carry-forwards, capital loss carry-forwards, loss from marketable securities, and general business tax credit carry-forward of $1,657.6 million, $178.5 million, $55.5 million and $3.6 million, respectively.

In general, under the United States tax law Section 382 of the Internal Revenue Code of 1986, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilise its pre-change net operating losses ("**NOLs**"), to offset future taxable income. As at 31 December 2017, the US subsidiary has $132.6 million NOLs out of which $43.9 million are subject to Internal Revenue Code Section 382 limitations. In addition, these U.S federal net operating loss carry-forwards will expire over the period of 2018 through 2027.

The remainder of the consolidated operating loss carry-forwards has no expiration period. Substantially, all of the capital losses have an unlimited carry-forward period.

F. Tax assessments

The Company files income tax returns in various jurisdictions with varying statutes of limitations. ECI Telecom Group and its subsidiaries in Israel have received final tax assessments or tax assessments that are considered as final due to lapse of statute of limitation period, through tax year 2012.

11. NOTE 11—FIXED ASSETS

	Right of use leased buildings and cars	Land and buildings	Machinery and equipment	Motor vehicles	Office furniture, equipment and accessories	Computers	Total
	$ in thousands						
Cost							
Balance as at 1 January 2015	40,104	38,004	147,916	941	6,292	76,631	309,888
Additions	2,970	458	2,462	40	32	943	6,905
Disposals	—	—	(550)	(183)	(48)	(376)	(1,157)
Balance as at 31 December 2015	43,074	38,462	149,828	798	6,276	77,198	315,636
Balance as at 1 January 2016	43,074	38,462	149,828	798	6,276	77,198	315,636
Additions	3,005	305	2,181	—	45	826	6,362
Disposals	—	—	(348)	(9)	(33)	(183)	(573)
Balance as at 31 December 2016	46,079	38,767	151,661	789	6,288	77,841	321,425
Balance as at 1 January 2017	**46,079**	**38,767**	**151,661**	**789**	**6,288**	**77,841**	**321,425**
Additions	**4,885**	**862**	**2,943**	**4**	**142**	**667**	**9,503**
Disposals	**—**	**(216)**	**(560)**	**—**	**(111)**	**(159)**	**(1,046)**
Balance as at 31 December 2017	**50,964**	**39,413**	**154,044**	**793**	**6,319**	**78,349**	**329,882**
Depreciation							
Balance as at 1 January 2015	14,485	13,653	134,085	471	5,925	72,253	240,872
Depreciation for the year	6,645	716	5,863	197	149	1,553	15,123
Disposals	—	—	(550)	(183)	(48)	(376)	(1,157)
Balance as at 31 December 2015	21,130	14,369	139,398	485	6,026	73,430	254,838
Balance as at 1 January 2016	21,130	14,369	139,398	485	6,026	73,430	254,838
Depreciation for the year	6,567	557	3,992	77	87	1,232	12,512
Disposals	—	—	(348)	(9)	(33)	(183)	(573)
Balance as at 31 December 2016	27,697	14,926	143,042	553	6,080	74,479	266,777
Balance as at 1 January 2017	**27,697**	**14,926**	**143,042**	**553**	**6,080**	**74,479**	**266,777**
Depreciation for the year	**6,153**	**454**	**3,429**	**63**	**74**	**1,188**	**11,361**
Disposals	**—**	**(170)**	**(546)**	**—**	**(92)**	**(152)**	**(960)**
Balance as at 31 December 2017	**33,850**	**15,210**	**145,925**	**616**	**6,062**	**75,515**	**277,178**
Carrying amounts							
As at 1 January 2016	21,944	24,093	10,430	313	250	3,768	60,798
As at 31 December 2016	18,382	23,841	8,619	236	208	3,362	54,648
As at 31 December 2017	**17,114**	**24,203**	**8,119**	**177**	**257**	**2,834**	**52,704**

12. NOTE 12—INTANGIBLE ASSETS

A. Movement in carrying amount

	Goodwill	Patents and core technology	Development costs	Software	Total
			$ in thousands		
Cost					
Balance as at 1 January 2015	325,078	258,802	199,601	85,154	868,635
Additions	—	—	18,867	3,438	22,305
Balance as at 31 December 2015	325,078	258,802	218,468	88,592	890,940
Balance as at 1 January 2016	325,078	258,802	218,468	88,592	890,940
Additions	—	—	18,716	3,295	22,011
Balance as at 31 December 2016	325,078	258,802	237,184	91,887	912,951
Balance as at 1 January 2017	**325,078**	**258,802**	**237,184**	**91,887**	**912,951**
Additions	**—**	**—**	**23,583**	**3,949**	**27,532**
Balance as at 31 December 2017	**325,078**	**258,802**	**260,767**	**95,836**	**940,483**
Amortisation and impairment losses					
Balance as at 1 January 2015	120,078	255,782	161,929	68,066	605,855
Amortisation for the year	**—**	**1,902**	**21,570**	**5,209**	**28,681**
Balance as at 31 December 2015	120,078	257,684	183,499	73,275	634,536
Balance as at 1 January 2016	120,078	257,684	183,499	73,275	634,536
Amortisation for the year	**—**	**1,118**	**18,201**	**5,206**	**24,525**
Balance as at 31 December 2016	120,078	258,802	201,700	78,481	659,061
Balance as at 1 January 2017	**120,078**	**258,802**	**201,700**	**78,481**	**659,061**
Amortisation for the year	**—**	**—**	**19,076**	**5,818**	**24,894**
Balance as at 31 December 2017	**120,078**	**258,802**	**220,776**	**84,299**	**683,955**
Carrying amounts					
As at 1 January 2016	205,000	1,118	34,969	15,317	256,404
As at 31 December 2016	205,000	—	35,484	13,406	253,890
As at 31 December 2017	**205,000**	**—**	**39,991**	**11,537**	**256,528**

B. Amortisation

The current amortisation of development costs is recognised in cost of sales. Amortisation of patents and technology was recognised in amortisation of intangible assets. Current amortisation of software is allocated and recognised in the income statements in respect of the activity in which the software item is used.

C. Key assumptions used in calculation of recoverable amount of goodwill

Key assumptions used in the calculation of recoverable amounts are discount rates and terminal value growth rates. These assumptions are as follows:

Discount rate			Terminal value growth rate		
2017	2016	2015	2017	2016	2015
%	%	%	%	%	%
14	15	16	**3**	3	3

13. NOTE 13—SUBSIDIARIES

A. Subsidiaries including consolidated entities

Presented hereunder is a list of the Company's material subsidiaries:

ECI Telecom Group Ltd.	Principal location of the company's activity	The Company's ownership interest in the subsidiary for the year ended 31 December 2017	2016	2015
ECI Telecom Ltd.	Israel	**100%**	100%	100%
Negev Telecom Ltd.	Israel	**100%**	100%	100%
ECI Telecom Holdings B.V	Netherlands	**100%**	100%	100%
ECI Telecom India Private Ltd.	India	**100%**	100%	100%
Hangzhou ECI Telecommunications Co,. Ltd.	China	**100%**	100%	100%
ECI Telecom 2005 LLC	Russia	**100%**	100%	100%
ECI Telecom Inc.	United-States	**100%**	100%	100%
ECI Telecom (GmbH)	Germany	**100%**	100%	100%
ECI Telecom (UK) Ltd.	United-Kingdom	**100%**	100%	100%
ECI Telecom (PH), Inc.	Philippines	**100%**	100%	100%
ECI Telecom (HK) Ltd.	Hong-Kong	**100%**	100%	100%
ECI De Mexico, S.A. De C.V	Mexico	**100%**	100%	100%
ECI Telecom DO BRAZIL	Brazil	**100%**	100%	100%
ECI Telecom sur America Ltda.	Colombia	**100%**	100%	100%
ECI de Argentina SA	Argentina	**100%**	100%	100%
ECI Telecom Ukraine LLC	Ukraine	**100%**	100%	100%
ECI Telecom SAS	France	**100%**	100%	100%
ECI Telecom Costa Rica S.A	Costa-Rica	**100%**	100%	100%
ECI Telecom Chile Ltda.	Chile	**100%**	100%	100%
ECI Telekom SP z.o.o	Poland	**100%**	100%	100%
ECI Networks Solutions B.V	Netherlands	**100%**	100%	100%

B. Significant restrictions on transfer of resources between the Company's entities

There are no significant restrictions on the ability of subsidiaries to transfer funds between the group members and there are no restrictions on the ability to transfer funds from the subsidiaries to ECI Telecom Ltd.

14. NOTE 14—INVENTORIES

	31 December		
	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Raw materials and consumables	**8,909**	7,570	9,425
Work in progress	**287**	258	188
Finished goods	**49,714**	51,550	40,139
	58,910	59,378	49,752

For further details on inventory under liens see Note 25.

15. NOTE 15—TRADE AND OTHER RECEIVABLES

Current assets	31 December 2017	31 December 2016	31 December 2015
	$ in thousands	$ in thousands	$ in thousands
Trade receivables[(1)]	**93,247**	71,050	78,958
Less provision for doubtful debts	**(1,958)**	(3,284)	(3,298)
	91,289	67,766	75,660
Other receivables[(2)]			
Advances to suppliers	**693**	618	599
Prepaid expenses	**3,737**	2,748	2,001
Tax authorities	**4,300**	4,066	4,724
Subcontractors	**13,661**	4,324	4,899
Other receivables	**2,349**	1,938	2,435
	24,740	13,694	14,658
(1) Including trade receivables due from related and interested parties	**7,500**	—	—
(2) Including other receivables due from related and interested parties	**630**	460	488

Non-current assets	31 December 2017	31 December 2016	31 December 2015
	$ in thousands	$ in thousands	$ in thousands
Trade receivables	**1,956**	1,742	361

Details regarding maturity dates of trade and other receivables

	Carrying amount	1 year	2–3 years	More than 3 years
	$ in thousands			
31 December 2017				
Trade receivables	93,245	91,289	1,926	30
31 December 2016				
Trade receivables	69,508	67,766	1,742	—
31 December 2015				
Trade receivables	76,021	75,660	361	—

See Note 26 on related and interested parties for information on trade and other receivables due from related and interested parties.

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 24 to the financial statements.

Aging of trade receivables at the reporting date:

	31 December 2017		31 December 2016		31 December 2015	
	Trade receivables gross	Provision for doubtful debts	Trade receivables gross	Provision for doubtful debts	Trade receivables gross	Provision for doubtful debts
	$ in thousands	$ in thousands	$ in thousands	$ in thousands	$ in thousands	$ in thousands
Not past due	**88,780**	—	63,504	—	70,187	—
Past due up to 90 days	**3,224**	—	4,339	—	2,935	—
Past due 91–180 days	**848**	—	1,205	—	1,808	—
Past due 181–360 days	**122**	—	209	—	334	—
Past due more than 360 days	**2,229**	**1,958**	3,535	3,284	4,055	3,298
Total past due	**6,423**	**1,958**	9,288	3,284	9,132	3,298
Total trade receivables	**95,203**	**1,958**	72,792	3,284	79,319	3,298

16. NOTE 16—CAPITAL AND RESERVES

A. Share capital (in shares of NIS 0.01 par value)

	Ordinary shares		
	2017	**2016**	**2015**
Issued and paid-in share capital as at 31 December	**33,870,124**	33,870,124	33,870,124
Authorised share capital	**200,000,000**	200,000,000	200,000,000

B. Commitments to issue equity instruments

(1) Capital note

In 2014 the Company entered into an agreement with ECI Holding (Hungary) KFT (the "**Parent Company**"), a Hungarian company, which as at 31 December 2017 held 100% of the ordinary shares of the Company and a group of private venture lending funds in Israel, according to which a loan then outstanding between the Company and the lending funds, in total amount of $37.9 million, was converted into a note which will thereafter bear no interest and shall be irrevocably and fully repayable through conversion into a fixed number of ordinary shares of the Company, upon the occurrence of certain events.

As a result, the note is included as part of shareholders' equity.

(2) See Note 21 on share-based payments regarding options allotted to employees.

17. NOTE 17—LOSS PER SHARE

The calculation of basic and diluted losses per share as at 31 December 2017 was based on the losses for the year divided by a number of ordinary shares outstanding, calculated as follows:

	Year ended 31 December		
	2017	**2016**	**2015**
Loss for the year ($ in thousands)	**(41,843)**	(31,270)	(27,313)
Weighted-average shares—basic (in thousands)	**33,870**	33,870	33,870
Effect of dilutive share incentive	**—**	—	—
Weighted-average shares—dilutive (in thousands)	**33,870**	33,870	33,870
Basic and dilutive loss per share ($)	**(1.24)**	(0.92)	(0.81)

18. NOTE 18—EMPLOYEE BENEFITS

Employee benefits include post-employment severance and pension benefits, vacation pay, short-term benefits and share-based payments.

As regards share-based payments see Note 21 on share-based payments.

As regards benefits to key management employees see Note 26 on related parties.

Composition of employee benefits:

	31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Presented under current liabilities—other payables:			
Short-term employee benefits[(1)]	**15,826**	15,064	16,642
Current maturities of pension benefits (C)	**469**	629	656
Total	**16,295**	15,693	17,298
Presented under non-current liabilities—employee benefits:			
Recognised liability for defined benefit plan, net (A(2))	**2,641**	2,041	1,605
Liability for vacation pay (B)	**3,878**	3,499	3,584
Pension benefits (C)	**424**	609	1,165
Total	**6,943**	6,149	6,354

(1) Short-term employee benefits include liabilities for last salary payable, bonuses, incentives, vacation pay and others expected to be utilised within the next 12 months.

A. Post-employment benefit plans

In some locations in the world, including Israel, the Company's employees are entitled to severance pay under local law, including upon retirement. The severance payments are calculated based on parameters such as length of employment and the employee's remuneration, and accruals are maintained to reflect these amounts.

(1) Defined contribution plan

Most of the employment agreements with employees in Israel are in accordance with Section 14. The Company makes regular deposits to certain insurance companies and pension funds for accounts controlled by each applicable employee in order to secure the employee's rights upon retirement or employment termination. The Company is fully relieved from any severance pay liability with respect to each such employee upon contribution to such insurance company or a pension fund, as the amounts deposited are not under the control and management of the Company and the severance pay risks have been irrevocably transferred to the insurance company or the pension fund. The related severance pay obligation and the amounts deposited pursuant to such obligation are therefore not reflected in the balance sheet.

(2) Defined benefit plan

The Company's liability for severance pay to its Israel-based employees not under Section 14, and employees in countries other than Israel, is calculated pursuant to Israel's Severance Pay Law, or in other countries pursuant to local laws.

The liability in Israel is fully covered through monthly deposits the Company makes with severance pay funds and insurance companies and the remaining gap, if any, is covered by an accrual. The net liability in respect of severance pay to such employees, and to employees in other jurisdictions that fall within the same category, is classified as a net defined benefit plan.

a. Movement in net defined benefit liabilities (assets) and in their components

	Defined benefit obligation			Fair value of plan assets			Net defined benefit liability (asset)		
	2017	2016	2015	2017	2016	2015	2017	2016	2015
					$ in thousands				
Balance as at 1 January	15,311	15,292	15,359	13,270	13,687	14,020	2,041	1,605	1,339
Expense/income included in profit or loss:									
Current service cost	1,150	1,256	1,076	—	—	—	1,150	1,256	1,076
Interest cost (income)	417	375	372	294	271	283	123	104	89
Included in other comprehensive income:									
Actuarial gains (losses) from changes in financial assumptions	153	7	(12)	—	—	—	153	7	(12)
Other actuarial gains (losses)	(188)	(246)	(404)	(7)	(21)	(12)	(181)	(225)	(392)
Actual return less interest income	—	—	—	(131)	(261)	(375)	131	261	375
Effect of movements in exchange rates	1,503	208	(47)	1,460	204	(45)	43	4	(2)
Other movements									
Benefits paid	(581)	(1,581)	(1,052)	(553)	(1,479)	(956)	(28)	(102)	(96)
Contributions paid by the Company	—	—	—	791	869	772	(791)	(869)	(772)
Balance as at 31 December	17,765	15,311	15,292	15,124	13,270	13,687	2,641	2,041	1,605

b. Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2017	2016	2015
	%	%	%
Discount rate as at 31 December	**1.34%**	1.96%	2.00%
Future salary increases			
Ages 0–29	**2%**	2%	2%
Ages 30–34	**1%**	1%	1%
Ages 35 and above	**0%**	0%	0%

Assumptions regarding future mortality are based on published statistics and mortality tables.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	31 December					
	One percentage point increase			One percentage point decrease		
	2017	2016	2015	2017	2016	2015
	$ in thousands			$ in thousands		
Future salary growth	433	278	268	(228)	(158)	(159)
Discount rate	(224)	(154)	(155)	431	275	264

B. Liability in respect of vacation pay

The Company provides for its liability in respect of employees that can accumulate their un-utilised vacation days and redeem them upon the employee leaving the Company.

Principal actuarial assumptions in respect of vacation at the reporting date:

	2017	2016	2015
	%	%	%
Discount rate as at 31 December	**1.33%**	1.92%	1.95%
Future salary increases			
Ages 0–29	**2%**	2%	2%
Ages 30–34	**1%**	1%	1%
Ages 35 and above	**0%**	0%	0%
Utilisation rate of sick leave	**100%**	100%	100%

Employee turnover rate assumed annual linear decrease from 10% to 5% in the first 10 years of employment.

C. Pension benefits

The Company provides for its liability to pay monthly pension benefits to certain employees in Israel for the period from the date at which the employee retired from the Company and the legal date for retirement to pension according to Israel law.

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2017	2016	2015
	%	%	%
Discount rate as at 31 December	**0.03%**	0.63%	0.93%

19. NOTE 19—LOANS AND BORROWINGS

This note provides information regarding the contractual terms of the Company's interest bearing loans and borrowings measured at amortised cost. Further information on the Company's exposure to interest, foreign currency and liquidity risks is included in Note 24 on financial instruments.

A. Composition:

	31 December		
	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Short-term loans from banks	**28,210**	27,750	27,750
Term Loan	**141,392**	141,392	132,700
Mezzanine loans	**41,875**	41,875	30,000
	211,477	211,017	190,450
Contingent Value Rights (see Note 19C)	**(6,035)**	(6,035)	—
Deferred Financing Costs	**(1,473)**	(1,473)	(80)
	203,969	203,509	190,370

Subsequent to the balance sheet date, the Company refinanced its outstanding debt. As part of the debt refinancing, almost all of the loan obligations were either refinanced on a long-term basis or replaced with equity securities.

B. Information on material loans

Type	Interest rate per annum payable on a quarterly basis	Interest rate per annum Payable-in-kind, and accumulated until loan maturity	Maturity	31 December 2017		31 December 2016		31 December 2015	
				Face value	Carrying amount	Face value	Carrying amount	Face value	Carrying amount
	%	%				$ in thousands			
Short-term loans from banks	Weighted average rates of 3.2%–3.7%	—	Extended from time to time through March 2018	**28,210**	**28,210**	27,750	27,750	27,750	27,750
Term Loan	Libor plus margin of 3% to 5%	8%	Extended from time to time through March 2018	**141,392**	**135,651**	141,392	135,651	—	—
Term Loan	Libor plus margin of 2%	4%	Extended from time to time through May 2016	—	—	—	—	132,700	132,620
Mezzanine loans	2.5%	11.5 to 15.5%	Extended from time to time through March 2018	**41,875**	**40,108**	41,875	40,108	—	—
Mezzanine loan	2.5%	9.5%	Extended from time to time through May 2016	—	—	—	—	30,000	30,000
				211,477	**203,969**	211,017	203,509	190,450	190,370

C. Separable embedded derivatives

The lenders of the Term loans and Mezzanine loans were also entitled to receive additional payments upon the occurrence of a corporate transaction, as defined in the respective credit agreements (the "**Contingent Value Rights**"). The actual amounts to be paid under the Contingent Value Rights, if any, will be determined based on several parameters, including, the Enterprise Value of the Company in such transaction, the consideration received and its timing.

The Company's pending obligations under the Contingent Value Rights is recorded as a derivative at fair value. The fair value is determined using valuation models and management estimates. The estimated fair value of the Contingent Value Rights derivatives as of the date of issuance of such obligations in 2016, in the total amount of $6,035 thousand was recorded through a reduction in the carrying amount of the loan.

D. Contractual restrictions and financial covenants

According to the terms of the debt agreements in effect as at 31 December 2017, the Company is required to comply with certain customary affirmative and negative covenants that include, among others, the following:

1. Limitations on incurrence of additional liens, indebtedness, and dividend distributions.
2. Limitations on investments, mergers, consolidations and sale of assets.
3. Certain financial ratios involving EBITDA, working capital and capital expenditures.

The Company complied with the material covenants for the year ended 31 December 2017. As part of the Debt Refinancing, the Company refinanced its current debt, and as a result the covenants in effect as at 31 December 2017 expired. Following the new debt agreements, subsequent to the balance sheet date, the Company is required to comply with a different set of customary affirmative and negative covenants.

20. NOTE 20—LEASES

As from 1 January 2017 the Company has early adopted IFRS 16, Leases ("**IFRS 16**"), which sets out guidance for the accounting treatment for leases. The Company applied IFRS 16 using the Full Retrospective approach with a restatement of comparative information.

The Company has entered into several lease agreements in Israel and abroad, mainly for the lease of buildings and cars. The Company leases the headquarter facility in Israel for the period through 2023, with an option to renew the lease for additional two periods of five years each. For the rest of its leased buildings and offices the Company entered into lease agreements of up to three years. For cars, mainly used by the Company's employees in Israel, the Company leased the cars from one leasing company, each car for a period of up to three years.

During 2017 the Company entered into a new lease agreement for the main offices and facility used by its wholly owned subsidiary in India. The lease period is through early 2022. The lease liability recorded by the Company upon inception of the lease in 2017 was $0.9M.

As for the carrying amounts of the right of use assets, see Note 11.

Analysis of maturity of the Company's lease liabilities:

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Up to one year	**8,314**	7,959	7,954
One to five years	**13,639**	10,068	10,100
Over five years	**3,443**	6,554	9,490
	25,396	24,581	27,544

21. NOTE 21—SHARE-BASED PAYMENT ARRANGEMENTS

Current stock option plans include the ECI Telecom Ltd. 2008 Share Incentive Plan (the "**2008 Plan**") and ECI Telecom Group's 2014 Share Option Plan (the "**2014 Plan**").

2014 Plan

Vesting for awards made under the 2014 Plan is over a total period of 3 years, with one thirty-sixth (1/36) of the awards vesting at the end of each and every month starting from the Vesting Commencement Date. For new employees vesting shall start after six (6) months of employment (at which time 6/36 shall be vested) and the remainder shall be equally vested monthly over a thirty (30) month period.

All options will be exercisable following the lapse of their vesting period and the earlier of (i) an IPO; or (ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, none of the outstanding options issued as part of the 2014 Plan are exercisable as at the balance sheet date.

Unless otherwise determined by the Board of Directors, the term of a stock option is six (6) years. Each option confers the right to purchase one (1) ordinary share of ECI Telecom Group at an exercise price of $1 per option, subject to anti-dilution adjustment. As at 31 December 2017, the Company is authorised to grant 2,816,000 options.

As at 31 December 2017 unearned compensation subject to future recognition upon the occurrence of an IPO or a Corporate Transaction, or one being probable to occur, is $3,036 thousand. As at 31 December 2017 Company's management did not determine that an IPO or a corporate transaction is probable to occur.

A summary of the 2014 Plan as at 31 December 2017, 2016 and 2015, and changes during the years ended on these dates is as follows:

	2017	**2016**	**2015**
	Number of options (in thousands)	**Number of options (in thousands)**	**Number of options (in thousands)**
Balance outstanding at beginning of year	**2,259**	2,311	—
Changes during the year:			
Granted	**—**	45	2,471
Forfeited	**(144)**	(97)	(160)
Balance outstanding at end of year	**2,115**	2,259	2,311

The fair value of employee share options is measured using the Black Scholes formula. Measurement input includes the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments, expected dividends, and the risk-free interest rate (based on government debentures).

The parameters used in the measurement of the fair values at grant date of the share-based payments plans were as follows:

	2017	2016
	$ in thousands	$ in thousands
Grant date fair value (in USD)	**1.4**	1.4–1.5
Share price on grant date (in USD)	**2.1**	2.2
Expected volatility (weighted average)	**40%**	42%
Expected life	**6**	6
Expected dividends	**—**	—
Risk free interest rate	**2.8%**	2.4%–2.7%

2008 Plan

The vesting period of all awards made as part of this plan is three (3) years from the Vesting Commencement Date. All options will be exercisable following the lapse of their vesting period and the earlier of (i) an IPO; or (ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, none of the outstanding options issued as part of the 2008 Plan are exercisable as at the balance sheet date.

Unless otherwise determined by the Board of Directors, the term of a stock option is six (6) years. Following a reverse split implemented by ECI Telecom Ltd. in 2013, each option confers the right to purchase 1/8 (one-eighth) of an ordinary share of ECI Telecom Ltd. at a set exercise price. As at 31 December 2017, ECI Telecom Ltd. is authorised to grant 25,600,000 options for a total of 3,200,000 ordinary shares of ECI Telecom Ltd., subject to anti-dilution adjustment.

As at 31 December 2017 unearned compensation subject to future recognition upon the occurrence of an IPO or a Corporate Transaction, or one being probable to occur, is immaterial. As at 31 December 2017 Company's management did not determine that an IPO or a corporate transaction is probable to occur.

A summary of the 2008 Plan as at 31 December 2017, 2016 and 2015, and changes during the years ended on these dates is as follows:

	Year ended 31 December					
	2017		2016		2015	
	Number of options (in thousands)	Weighted average exercise price ($)	Number of options (in thousandth)	Weighted average exercise price ($)	Number of options (in thousandth)	Weighted average exercise price ($)
Balance outstanding at beginning of the year	**1,346**	**3.00**	5,455	2.52	9,231	2.23
Changes during the year:						
Granted	**—**	**—**	—	—	—	—
Forfeited or cancelled	**(1,193)**	**3.02**	(4,109)	2.37	(3,776)	1.80
Balance outstanding at end of the year[(1)]	**153**	**2.77**	1,346	3.00	5,455	2.52

(1) As at 31 December 2017 the outstanding 153 thousand options are exercisable, subject to the terms of the plan, to approximately 19 thousand ECI Telecom Ltd. common shares, constituting approximately 0.01% of the common shares of ECI Telecom Ltd. on a fully diluted basis. Each 8 options are exercisable to 1 common share of ECI Telecom Ltd., for a total exercise price per 1 common share of approximately $22.1.

22. NOTE 22—PROVISIONS

	Warranties	Reorganisation	Legal claims	Total
		$ in thousands		
Balance as at 1 January 2017	**3,366**	**3,700**	**684**	**7,750**
Provisions made during the year	**1,883**	**—**	**—**	**1,883**
Provisions used during the year	**(1,423)**	**(1,366)**	**(342)**	**(3,131)**
Balance as at 31 December 2017	**3,826**	**2,334**	**342**	**6,502**
Presented in current liabilities	**3,826**	**1,167**	**342**	**5,335**
Presented in non-current liabilities	**—**	**1,167**	**—**	**1,167**
	3,826	**2,334**	**342**	**6,502**

For information on provisions for employee benefits, see Note 18 regarding employee benefits

A. Warranties

The provision for warranties relates mainly to products sold during the years ended 31 December 2017, 2016 and 2015. The provision is based on historical warranty data estimates associated with similar products and services. The Company expects to incur most of the liability during 2018.

B. Reorganisation

During the years 2013 and 2014 the Company went through several workforce reduction plans. The Company recorded all expenses incurred as part of these plans as reorganisation expenses in the consolidated statements of operations. In 2016, the reorganisation expenses included an amount of $3.7 million provided for in connection with a settlement reached by the Company with its former primary IT provider.

C. Legal claims

For information on legal claims see Note 25 regarding contingent liabilities.

23. NOTE 23—OTHER PAYABLES

	31 December		
	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Employee benefits (see Note 18 on employees benefits)	**16,295**	15,693	17,298
Accrued expenses	**21,665**	18,427	18,804
Accrued interest in respect of loans	**53,129**	28,712	24,642
Tax authorities	**7,950**	8,119	10,465
Commissions payable	**4,040**	5,241	7,071
Advances from customers	**3,040**	3,828	2,102
Fair value of derivatives	**6,080**	6,080	2,861
Amounts collected on behalf of others to be transferred	**28,837**	19,964	19,671
Other payables	**796**	828	997
	141,832	106,892	103,911

See Note 26 on related parties for information on other payables due to related parties.

The Company's exposure to linkage, currency and liquidity risks related to other payables is disclosed in Note 24 on financial instruments.

24. NOTE 24—FINANCIAL INSTRUMENTS

A. Overview

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

- Credit risk
- Liquidity risk
- Market risk (mainly foreign currency risk)

This note presents quantitative and qualitative information about the Company's exposure to each of the above risks, and how the risks are measured and managed.

In order to manage these risks and as described hereunder, the Company executed a very limited number of transactions in derivative financial instruments in 2015 (no transactions in 2017 or 2016).

B. Risk management framework

Management has overall responsibility for the Company's financial risk management. The purpose of the Company's financial risk management is to constantly identify, define and monitor those risks, and to minimise to the extent possible their possible effects.

The Company's policy is to partially hedge, subject to the availability of sufficient credit lines, the exposure arising from fluctuations in foreign exchange rates.

C. Credit risk

Management monitors the Company's exposure to credit risk on a regular basis.

Cash, deposits and restricted cash are deposited in highly-rated financial institutions, and the Company also maintains a policy to avoid concentration of risk that may arise from making deposits with one financial institution.

The Company's exposure to credit risk in respect of trade and other receivables is influenced mainly by the individual characteristics of each customer. Management estimates that the exposure in respect of credit to customers is limited due to the fact that most customers are large companies with high credit rates, and also the large number of customers and their geographical spread. In addition, trade receivables are for a major part secured by trade risk insurance policies or by letters of credit issued by highly rated financial institutions.

Management regularly monitors customer debts, and the financial statements include provisions for doubtful debts, which properly reflect, in the management's estimation, the loss inherent in specific customers' debts the collection of which is doubtful.

See Note 4 for revenues attributable to sales transactions with major customers.

D. Liquidity risk

Cash flow forecasts are determined on both an individual company basis and a consolidated basis. The Company examines current forecasts of its liquidity requirements so as to make certain that there is sufficient cash for its operating needs, and it is careful at all times to have enough unused credit facilities so that the Company does not exceed its credit limits and is in compliance with its financial covenants. These forecasts take into consideration matters such as compliance with required financial covenants, compliance with certain liquidity ratios, and compliance with external requirements such as laws or regulation.

See Note 19 for information about the terms of the loans received by the Company.

The following are the contractual maturities of financial liabilities at undiscounted amounts and based on the future rates forecasted at the reporting date, including estimated interest payments.

	31 December 2017					
	Carrying Amount	Contractual cash flows	6 months or less	6–12 months	1–2 years	3–6 years
	$ in thousands					
Short-term Loans	203,969	211,477	211,477	—	—	—
Trade payables	87,774	87,774	87,774	—	—	—
Other payables	138,792	145,098	145,098	—	—	—
Finance lease liability (including current maturity)	25,396	33,077	4,319	3,957	11,700	13,101
Royalties payable to Israel Innovation Authority (including current maturity)	32,606	52,152	5,259	3,537	17,617	25,739
Other long-term balances	302	302	—	—	302	—
	488,839	529,880	453,927	7,494	29,619	38,840

E. Market risk

(a) Currency risk

The Company is exposed to currency risk on sales, purchases and operating expenditure that are denominated in a currency other than the functional currency of the Company. The principal currencies in which these transactions are denominated is New Israeli Shekel ("**ILS**") and Euro.

The Company's exposure to foreign currency risk was as follows:

	31 December 2017					
	Foreign currency					
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	**62,678**	**92,282**	**13,953**	**8,812**	**37,962**	**215,687**
Non-current assets	**311,881**	**806**	**—**	**—**	**1,150**	**313,837**
Current liabilities	**(7,766)**	**(405,997)**	**(18,630)**	**(1,582)**	**(21,947)**	**(455,922)**
Non-current liabilities	**—**	**(26,063)**	**(20,672)**	**(2,823)**	**—**	**(49,558)**
Total exposure in statement of financial position in respect of financial assets and financial liabilities	**366,793**	**(338,972)**	**(25,349)**	**4,407**	**17,165**	**24,044**

	31 December 2016					
	Foreign currency					
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	62,157	66,414	9,470	9,067	36,357	183,465
Non-current assets	310,912	1,742	—	—	—	312,654
Current liabilities	(2,389)	(334,380)	(14,732)	(2,355)	(24,285)	(378,141)
Non-current liabilities	—	(29,721)	(19,404)	—	(2,863)	(51,988)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	370,680	(295,945)	(24,666)	6,712	9,209	65,990

	31 December 2015					
	Foreign currency					
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	51,725	52,108	10,436	8,404	62,147	184,820
Non-current assets	319,273	361	—	—	—	319,634
Current liabilities	(2,929)	(314,374)	(13,811)	(2,373)	(22,919)	(356,406)
Non-current liabilities	—	(25,064)	(22,443)	—	(3,238)	(50,745)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	368,069	(286,969)	(25,818)	6,031	35,990	97,303

(b) Sensitivity analysis

A change as at 31 December 2017 in the exchange rates of the ILS and Euro against the dollar at a rate of 5%, would have affected the measurement of financial assets and liabilities denominated in a foreign currency and would have increased or decreased profit or loss and equity by the amounts (after tax) of $2.6 million, ($2.5 million and $2.5 million as at 31 December 2016 and 2015, respectively) as a result of a change in the ILS, and $0.2 million ($0.3 million and $0.3 million as at 31 December 2016 and 2015, respectively) as a result of a change in the Euro. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all

other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 2016 and 2015.

F. Fair value

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, restricted cash, trade receivables, other receivables, loans and borrowings, trade payables and other payables are the same or proximate to their fair value.

The table below presents an analysis of financial instruments measured at fair value on the temporal basis using valuation methodology in accordance with the fair value hierarchy levels (for a definition of the various hierarchy levels, see Note 3 regarding the basis of preparation of the financial statements).

	31 December 2017			
	$ in thousands			
	Level 1	Level 2	Level 3	Level 4
Financial liabilities				
Separate Embedded Derivatives	—	—	**6,080**	**6,080**
	—	—	**6,080**	**6,080**
	31 December 2016			
Financial liabilities				
Separate Embedded Derivatives	—	—	6,080	6,080
	—	—	6,080	6,080
	31 December 2015			
Financial liabilities				
Separate Embedded Derivatives	—	—	2,861	2,861
	—	—	2,861	2,861

The table hereunder presents a reconciliation from the opening balance to the closing balance of separable embedded derivatives carried at fair value level 3 of the fair value hierarchy:

	2017	2016	2015
	$ in thousands	$ in thousands	$ in thousands
Balance at the beginning of year	**6,080**	2,861	2,778
Additions	—	6,035	—
Deletions	—	(2,605)	—
Change in the fair value	—	(211)	83
Balance at the end of year	**6,080**	6,080	2,861

G. Financial guarantees

The Company maintains certain guarantees mainly through banks and with insurance companies to support its performance obligations under customer contracts and other contracts that can be called in case of a material breach of contracts. As at 31 December 2017, these guarantees totalled approximately $38.7 million ($42.8 million and $51.5 million as at 31 December 2016 and 2015, respectively).

H. Transfers of financial assets

The Company maintains customer debt factoring agreements with a number of financial institutions and with the Parent Company, and with an additional related party (the "**Banks**"). Under the terms of the agreements, the Company may transfer receivables to the Banks, on a non-recourse basis, provided that the banks approve the receivables in advance.

In respect of a majority of its trade receivables, the Company maintains credit insurance policies from major insurance entities or obtains letters of credit from the customers, covering a major part of the credit risk. In some cases, the Company maintains some recourse obligations, limited to events of commercial disputes, such as product defects, which are not covered under the credit insurance policy, and are unrelated to the credit worthiness of the customer. The Company does not expect any recourse to take place in the foreseeable future due to commercial disputes.

The Company accounts for the factoring of its financial assets as a sale of the assets and records the factoring fees, when incurred, in profit and loss as finance expenses. As at 31 December 2017, 2016 and 2015, the outstanding trade receivables derecognised from the consolidated balance sheet in connection with factoring agreements amounted to $73,779 thousand, $65,298 thousand and $66,116 thousand, respectively.

25. NOTE 25—CONTINGENT LIABILITIES AND ASSETS PLEDGED

A. Legal claims

During the normal course of business, legal claims were filed against group companies or there are pending claims against the Company (in this section: "**Legal Claims**"). In the opinion of the management of the Company, based, among other things, on legal opinions as to the likelihood of success of the claims, the financial statements include adequate provisions (see Note 22), where provisions are required to cover the exposure resulting from such claims.

Claims of employees and former employees of group's companies

Several lawsuits and claims have been submitted against the Company in Israel and in other jurisdictions in respect of labour and related matters. Such matters include the calculation of benefits, right to receive additional benefits for termination, determination of employee status, right to terminate, and others. Provisions in the amount of $342 thousand were included as at 31 December 2017 (see Note 22). Management of the Company believes, based on the opinion of its legal advisors that the financial statements include adequate provisions in respect of such claims.

Claims by enterprises and companies

Several claims have been submitted against the Company and against consolidated subsidiaries, in respect of activities conducted by the Company, in the ordinary course of business, alleging that the Company, inter alia, used patents owned by others. No provision in respect of such claims was included as at 31 December 2017. The Company's management, based mainly on opinions of its legal advisors, believes that the effect, if any, of the results of such claims on the financial position of the Company and the results of its operations will be immaterial.

Subsequent to the balance sheet date the Company received a letter from Sisvel International SA ("**Sisvel**") advising the Company's wholly owned subsidiary in Germany that it needs to seek a licence from Sisvel for products which implement DSL technologies to cover certain patents that are owned by Sisvel. A similar letter was sent to ECI Telecom Ltd. for sales in the United States but ECI Telecom Ltd. had no such sales in this territory. If the Company determines that no licence is necessary, or that it does not desire to seek a licence this matter could result in litigation between ECI Telecom Ltd. and Sisvel. Because notification was recently received it is too early to assess the merits of the letter or whether a licence is necessary. The Company does not currently sell products containing DSL technology.

In addition, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows. Liabilities related to legal proceedings are recorded when it is likely that a liability has been incurred and the associated amount can be reasonably estimated. As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. In each of these matters the Company continuously evaluates the merits of the respective claims and defends itself vigorously or seeks to arrive at alternative resolutions in its best interest, as it deems appropriate.

B. Purchase commitments

As at 31 December 2017, the Company had commitments in the amount of $73.9 million covering, primarily, the purchase of materials ($52.3 million and $50.3 million as at 31 December 2016 and 2015, respectively).

C. Assets pledged

(1) The Company pledged certain of its assets, including those of its subsidiaries, to the lending parties in several credit agreements as at 31 December 2017.

    In Israel, that included the creation of (1) fixed charges on assets like machinery, equipment, intellectual property, shares that the Company holds in its subsidiaries, material insurance policies and bank accounts

and (2) a floating charge on all assets and properties owned from time to time by the Company and its subsidiaries.

As at 31 December 2017, fixed charges are duly registered with the relevant authorities with respect to certain machinery, equipment, the intellectual property, the shares of the Company's subsidiaries and certain insurance policies, and a floating charge has been registered on all assets of the Company and of certain of its subsidiaries.

(2) Pursuant to an arrangement between the Company and the IIA entered into in May 2012 and amended in October 2013, a second ranking floating charge has been registered on all assets of the Company in favour of the Israeli Ministry of Economy ("**IME**") to secure the due and punctual payment by ECI Telecom Ltd. to IME of specific amounts owed by ECI Telecom Ltd. to IME as delineated in the arrangement between the parties and secured according to the agreement by this pledge. Pursuant to the same arrangement, a third ranking floating charge has been registered on all assets of the Company in favour of an entity controlled by the indirect shareholders of the Company, to secure the aforesaid amounts as delineated in the arrangement between the parties.

As at 31 December 2017, the Company paid to the IIA all due amounts under the above agreement and its amendments, and is entitled to require the IIA to remove the aforementioned charges. Subsequent to balance sheet date the above mentioned pledged was removed.

(3) Short-term deposits in an amount of $3.0 million (31 December 2016—$1.9 million) were pledged in favour of banks and an insurance company ("**Financial Institutions**") to secure their potential obligations under certain performance bonds issued by the Financial Institutions. The performance bonds, in total amount of $3.0 million were issued to Company's customers as a security for the Company's contractual obligations under tenders and contracts. Additional short-term bank deposits in the aggregated amount of $9.9 million were pledged in favour of an Israeli bank to secure financial bonds in an amount of $11.2 million mainly for the Company's obligation under the lease agreement for its headquarter facility in Israel.

(4) As at 31 December 2017, two mortgages, on certain real estate assets of the Company which are located in the cities of Petach Tikva (the same plot as the Company's main offices) and Givat Shmuel (adjacent to the Company's main offices) in Israel, are registered in favour of Flextronics (Israel) Ltd. ("**Flextronics**"). Both mortgages were registered in order to secure certain indebtedness owed from time to time by the Company to Flextronics pursuant to a manufacturing agreement entered into between the parties.

(5) The Company registers pledges in immaterial amounts from time to time on certain equipment items as part of the ordinary course of business.

D. Royalties payable to the IIA

The Company is committed to pay royalties to the IIA on proceeds from sale of products which the government of Israel supported by way of research and development grants. The royalties are calculated mainly at the rates of 1.3% to 3.0% of the aggregated proceeds from the sale of such products developed at the Company's R&D centre in Omer, or 3.5% to 5.0% of the aggregated proceeds from sale of such products developed at the Company's R&D centre in its headquarters facility in Israel, up to an amount not exceeding 100% of such grants plus interest at LIBOR rate (for new cases approved starting from 2017, interest at the higher of LIBOR rate plus a margin of 1.5%, and 2.75%). In case manufacturing is done outside of Israel, the respective royalties rates are increased by additional 1%.

The Company records the royalties payable to the IIA as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is re-examined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognised in profit or loss, as part of research and development expenses.

The liability for royalties payable to the IIA is as follows:

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Current liability	**8,542**	1,770	4,668
Non-current liability	**24,064**	27,997	24,582
	32,606	29,767	29,250

26. NOTE 26—RELATED PARTIES

A. Parent company and subsidiaries

The Company's parent company is ECI Holding (Hungary) KFT, a Hungarian company, which as at 31 December 2017 held 100% of the ordinary shares of the Company. See Note 13 on subsidiaries.

B. Compensation and benefits to key management personnel

Compensation and benefits to key management personnel comprise mainly of salaries, bonuses and incentives, as well as contributions to post-employment benefits such as contributions to a defined benefit plan (or to a defined contribution plan for those key management personnel employed in Israel pursuant to Section 14), on their behalf.

Executive officers also participate in the Company's share option programmes. For further information see Note 21 regarding share-based payments.

Compensation and benefits to key management personnel:

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Base salary, bonuses and incentives	**3,203**	4,749	3,433
Short-term employee benefits	**168**	170	203
Post-employment and benefits	**309**	306	313
Other compensation and benefits	**255**	246	251
	3,935	5,471	4,200

C. Transactions with related parties

(1) Balances due from or to related parties

	31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Trade receivables	**7,500**	—	—
Other receivables	**630**	460	488
Trade payables	**497**	146	—
Other payables	**40,022**	28,023	23,134

(2) Transactions with related parties

	Year ended 31 December		
	2017	**2016**	**2015**
	$ in thousands	**$ in thousands**	**$ in thousands**
Revenue	**7,500**	—	—
Expenses	**5,609**	4,189	4,236

D. Other engagements between the Company and related parties

(1) The Company pays fees to an entity controlled by the indirect shareholders of the Company in respect of letters of credit issued by this entity to an Israeli bank to support credit lines issued by the bank to the Company.

(2) The Company pays management fees to an entity controlled by the indirect shareholders of the Company.

(3) Sales of certain of the Company's receivables (see Note 24H).

27. NOTE 27—SUBSEQUENT EVENTS

During March 2018, the Company refinanced its outstanding debt. As part of the debt refinancing, almost all of the loan obligations were either refinanced on a long-term basis or replaced with equity securities (see Note 19). In addition, as part of the debt refinancing, ECI Telecom Group issued new equity securities and ECI Telecom Ltd. issued non-controlling interest securities in the form of preferred shares.

3. SECTION C—INTERIM HISTORICAL FINANCIAL INFORMATION

Consolidated Interim Statements of Financial Position as at

	Note	30 June 2018	30 June 2017	31 December 2017
		$ in thousands	(Unaudited) $ in thousands	$ in thousands
Assets				
Cash and cash equivalents		**15,655**	19,863	26,236
Restricted cash		**16,412**	11,073	12,994
Trade receivables	15	**79,784**	67,219	91,289
Other receivables	15	**23,744**	12,992	24,740
Current tax receivables	10	**1,317**	3,607	1,518
Inventory	14	**61,884**	57,481	58,910
Total current assets		**198,796**	172,235	215,687
Trade and other receivables	15	**7,591**	1,365	1,956
Fixed assets	11	**50,919**	54,252	52,704
Capitalised development costs	12	**46,375**	39,756	39,991
Intangible assets	12	**11,058**	12,915	11,537
Goodwill	12	**205,000**	205,000	205,000
Deferred tax assets	10	**2,131**	2,448	2,649
Total non-current assets		**323,074**	315,736	313,837
Total assets		**521,870**	487,971	529,524
Liabilities				
Loans and borrowings	19	**780**	203,509	203,969
Trade payables		**74,513**	60,526	87,774
Other payables	23	**65,791**	121,582	141,832
Royalties payable to Israel Innovation Authority		**7,383**	2,847	8,542
Current tax liabilities	10	**232**	468	156
Lease liabilities	20	**8,911**	8,239	8,314
Provisions	22	**5,821**	5,079	5,335
Total current liabilities		**163,431**	402,250	455,922
Long-term loans	19	**133,386**	—	—
Royalties payable to Israel Innovation Authority		**22,603**	26,790	24,064
Employee benefits	18	**6,245**	6,641	6,943
Other long-term liabilities	19	**10,628**	305	302
Lease liabilities	20	**14,680**	19,176	17,082
Provisions	22	—	1,167	1,167
Total non-current liabilities		**187,542**	54,079	49,558
Total liabilities		**350,973**	456,329	505,480
Equity	16			
Non-controlling interest		**69,825**	—	—
Share capital		**122**	98	98
Share premium		**1,296,577**	1,246,905	1,246,905
Preferred shares		**87,310**	—	—
Capital note		—	37,887	37,887
Capital reserves		**87,998**	87,998	87,998
Accumulated deficit		**(1,370,935)**	(1,341,246)	(1,348,844)
Equity attributable to owners of the Company		**101,072**	31,642	24,044
Total equity		**170,897**	31,642	24,044
Total liabilities and equity		**521,870**	487,971	529,524

Consolidated Interim Statements of Income

	Note	For the six months ended 30 June 2018	For the six months ended 30 June 2017	For the year ended 31 December 2017
			(Unaudited)	
		$ in thousands	$ in thousands	$ in thousands
Revenues	4	**197,700**	159,034	367,207
Cost of sales	5	**130,844**	107,020	237,365
Gross profit		**66,856**	52,014	129,842
Research and development expenses, net	6	**14,318**	22,084	43,089
Selling and marketing expenses	7	**28,964**	25,857	54,837
General and administrative expenses	8	**11,005**	9,172	18,708
Reorganisation expenses	22	**1,380**	—	—
Operating income		**11,189**	(5,099)	13,208
Financing income		**113**	44	41
Financing expenses		**(28,035)**	(27,508)	(52,271)
Financing expenses, net	9	**(27,922)**	(27,464)	(52,230)
Loss before taxes on income		**(16,733)**	(32,563)	(39,022)
Taxes on income	10	**(2,033)**	(1,785)	(2,821)
Loss for the period		**(18,766)**	(34,348)	(41,843)
Attributable to:				
Owners of the Company		**(22,091)**	(34,348)	(41,843)
Non-controlling interests		**3,325**	—	—
Loss for the period		**(18,766)**	(34,348)	(41,843)
Earnings per share				
Basic and dilutive loss per share (in dollar)	17	**(0.63)**	(1.01)	(1.24)
Earnings before interest, tax, depreciation and amortisation (EBITDA)		**29,944**	13,022	50,316

Consolidated Interim Statements of Other Comprehensive Income

	Note	For the six months ended 30 June		For the year ended 31 December
		2018	2017	2017
			(Unaudited)	
		$ in thousands	$ in thousands	$ in thousands
Loss for the period		**(18,766)**	(34,348)	(41,843)
Other comprehensive income (loss) items that will not be transferred to profit or loss				
Re-measurement of defined benefit plan	18	**—**	—	(103)
Total comprehensive loss for the period		**(18,766)**	(34,348)	(41,946)
Attributable to:				
Owners of the Company		**(22,091)**	(34,348)	(41,946)
Non-controlling interests		**3,325**	—	—
Total comprehensive loss for the period		**(18,766)**	(34,348)	(41,946)

Consolidated Statements of Changes in Equity

	Number of shares	Share capital	Share premium	Preferred shares	Capital note	Capital reserves	Accumulated deficit	Total	Non-Controlling interests	Total equity
					$ in thousands					
Balance at 1 January 2018	33,870,124	98	1,246,905	—	37,887	87,998	(1,348,844)	24,044	—	24,044
Changes during the period										
Loss for the period	—	—	—	—	—	—	(22,091)	(22,091)	3,325	(18,766)
Capital contribution	—	—	11,809	—	—	—	—	11,809	—	11,809
Issue of preferred shares	—	—	—	87,310	—	—	—	87,310	—	87,310
Issue of preferred shares in a subsidiary to non-controlling interests	—	—	—	—	—	—	—	—	66,500	66,500
Shares issued for a capital note	8,467,531	24	37,863	—	(37,887)	—	—	—	—	—
Balance at 30 June 2018	42,337,655	122	1,296,577	87,310	—	87,998	(1,370,935)	101,072	69,825	170,897
Balance at 1 January 2017	33,870,124	98	1,246,905	—	37,887	87,998	(1,306,898)	65,990	—	65,990
Changes during the period—Loss for the period	—	—	—	—	—	—	(34,348)	(34,348)	—	(34,348)
Balance at 30 June 2017 (Unaudited)	33,870,124	98	1,246,905	—	37,887	87,998	(1,341,246)	31,642	—	31,642
Balance at 1 January 2017	33,870,124	98	1,246,905	—	37,887	87,998	(1,306,898)	65,990	—	65,990
Changes during the period—Loss for the year	—	—	—	—	—	—	(41,843)	(41,843)	—	(41,843)
Re-measurement of defined benefit plan	—	—	—	—	—	—	(103)	(103)	—	(103)
Balance at 31 December 2017	33,870,124	98	1,246,905	—	37,887	87,998	(1,348,844)	24,044	—	24,044

Consolidated Interim Statements of Cash Flows

	Note	For the six months ended 30 June		For the year ended 31 December
		2018	2017	2017
			(Unaudited)	
		$ in thousands	$ in thousands	$ in thousands
Cash flows from (used in) operating activities				
Loss for the period		**(18,766)**	(34,348)	(41,843)
Adjustments for:				
Depreciation and amortisation		**18,755**	18,121	37,107
Other non-cash, net		**1,794**	(1,612)	(824)
Income tax expense	10	**2,033**	1,785	2,821
Taxes paid in cash		**(1,552)**	(2,219)	(3,432)
Interest paid in cash		**3,991**	6,803	13,415
Change in trade receivables including non-current maturities of long-term trade receivables		**15,870**	924	(23,737)
Change in other receivables		**996**	702	(11,046)
Change in inventory		**(3,500)**	1,426	(1,265)
Change in trade payables		**(13,261)**	10,713	37,961
Change in other payables		**16,783**	14,166	33,335
Change in provisions		**(681)**	(1,504)	(1,248)
Change in employee benefits		**(698)**	492	691
Change in long-term loan		**3,746**	—	—
Change in other long-term liabilities		**(174)**	252	249
Change in lease liabilities		**149**	3,570	4,840
Change in royalties payable to Israel Innovation Authority		**1,992**	1,230	2,560
Net cash from operating activities		**27,477**	20,501	49,584
Cash flows from (used in) investing activities				
Acquisition of fixed assets and software	11, 12	**(4,435)**	(3,844)	(6,209)
Development expenditure recognised as intangible assets	12	**(16,126)**	(13,567)	(23,583)
Investments in deposits, net		**(4,027)**	(87)	(1,956)
Net cash used in investing activities		**(24,588)**	(17,498)	(31,748)
Net cash inflow before financing activities		**2,889**	3,003	17,836
Cash flows from (used in) financing activities				
Increase in short-term credit, net	19	**320**	—	460
Issuance of long-term debt(*)	19	**102,200**	—	—
Loans repaid(*)	19	**(202,686)**	—	—
Transactions costs related to loans taken(*)		**(4,650)**	(289)	(289)
Proceeds from issuance of long-term derivative(*)	19	**10,500**	—	—
Repayment of derivatives(*)	19	**(8,000)**	—	—
Proceeds from preferred shares issuance in subsidiary(*)	16	**59,013**	—	—
Proceeds from preferred shares issuance(*)	16	**44,000**	—	—
Grants received from the Israel Innovation Authority		**647**	155	2,084
Royalties paid to the Israel Innovation Authority		**(5,259)**	(1,805)	(1,805)
Payment of finance lease liabilities	25	**(4,663)**	(4,412)	(8,962)
Interest paid in cash		**(3,991)**	(6,803)	(13,415)
Net cash used in financing activities		**(12,569)**	(13,154)	(21,927)
Effect of exchange rate fluctuations on cash and cash equivalents		**(901)**	221	534
Net decrease in cash and cash equivalents		**(10,581)**	(9,930)	(3,557)
Cash and cash equivalents as at the beginning of the period		**26,236**	29,793	29,793
Cash and cash equivalents as at the end of the period	21	**15,655**	19,863	26,236

(*) Cash inflows (outflows) for the six months ended 30 June 2018 are in connection with a Debt Refinancing that took place in March 2018 (see Note 16 and 19).

1. NOTE 1—GENERAL

A. Reporting entity

ECI Telecom Group Ltd. ("**ECI Telecom Group**") is an Israeli company that was incorporated in 2007. The address of the registered office is 30 Hasivim Street Petah-Tikva, Israel. ECI Telecom Group and its subsidiaries (collectively, the "**Company**") is a global provider of ELASTIC Network® solutions for service providers, Cloud Solution Providers, utilities as well as data center operators. These solutions include scalable, transport and data networking infrastructure platforms for optical and digital telecommunications networks, as well as broadband access systems. Along with its long-standing, industry-proven packet-optical transport and broadband access systems, the Company offers a variety of SDN/NFV applications, end-to-end network management, a comprehensive cyber security solution, and a range of professional services. The Company's products are designed to create and manage bandwidth, maximise revenues for network operators, reduce operating expenses, expand capacity, improve performance and enable new revenue-generating services. The Company currently operates in one operating segment.

During 2018, the Company refinanced its outstanding debt (the "**Debt Refinancing**"). As part of the refinancing, the Company's debt obligations were either refinanced on a long-term basis or replaced with equity securities, and as a result, the Company believes that it will be able to meet its financial obligations, as they come due throughout calendar years 2018 and 2019.

B. Definitions

In these financial statements—

- **ECI Telecom Group**—ECI Telecom Group Ltd.
- **The Company**—ECI Telecom Group and its subsidiaries.
- **Subsidiaries**—Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of ECI Telecom Group.
- **Related party**—Within its meaning in IAS 24 (2009), "Related Party Disclosures".

2. NOTE 2—BASIS OF PREPARATION

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**").

B. Functional and presentation currency

These consolidated financial statements are presented in U.S dollars (herein-under "**dollar**" or "**USD**"), which is the Company's functional currency, and have been rounded to the nearest thousand. The dollar is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- Certain financial instruments and derivatives;
- Inventories measured at the lower of cost and net realizable value;
- Deferred tax assets and liabilities;
- Provisions;
- Assets and liabilities for employee benefits.
- Liability to pay royalties on Government grants.

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

D. Use of estimates and judgments

Use of estimates

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

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

Information about assumptions made by the Company with respect to the future and other reasons for uncertainty with respect to estimates that have a significant risk of resulting in a material adjustment to carrying amounts of assets and liabilities in the next financial year are included in the following notes:

Estimate	Principal assumptions	Possible effects	Reference
Recoverable amount of goodwill	The pre-tax discount rate and a budgeted EBITDA growth rate	Change in impairment loss	see Note 12 regarding intangible assets
Post-employment employee benefits	Actuarial assumptions such as the discount rate, future salary increases and the future pension increase	An increase or decrease in the post-employment defined benefit obligation	see Note 18 regarding employee benefits
Assessment of probability of contingent liabilities	Whether it is more likely than not that an outflow of economic resources will be required in respect of legal claims pending against the Company and its investees	Reversal or creation of a provision for a claim	see Note 25 regarding contingent liabilities
Fair value measurement of non-trading derivatives	Unobservable inputs used in the valuation model (discount rates and probability assigned to the occurrence of certain events)	Profit or loss from a change in the fair value of derivative financial instruments	see Note 24 regarding financial instruments
Uncertain tax positions	The extent of the certainty that the Company's tax positions will be accepted (uncertain tax positions) and the risk of incurring any additional tax and interest expenses. This is based on an analysis of a number of matters including interpretations of tax laws and the Company's past experience	Recognition of additional income tax expenses or tax income	see Note 10 regarding taxes on income
Discount rate of lease liability	The Company discounts the lease payments using its incremental borrowing rate.	An increase or decrease in the lease liability, right-of-use asset and financing expenses recognised.	See Note 3 regarding leases
Expected future royalties and discount rates applied to liabilities to pay royalties on Government grants	The Company makes assumptions regarding the expected future royalties and the discount rates to be applied.	An increase or decrease in the royalties liability and research and development and financing expenses recognised.	See Note 3 regarding grants

Determination of fair value

Preparation of the financial statements requires the Company to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in Note 24.

When determining the fair value of an asset or liability, the Company uses observable market data as much as possible. There are three levels of fair value measurement in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly
- Level 3: inputs that are not based on observable market data (unobservable inputs).

E. Changes in accounting policies

(1) Initial application of amendments to standards

As from 1 January 2018 the Company applies the amendments to the standards described below:

Amendment	The requirements of the publication	Effective date and transitional provisions	Effects
(1) Amendment to IFRIC 22, *Foreign Currency Transactions and Advance Consideration*	The interpretation provides that the transaction date for the purpose of determining the exchange rate for recording a foreign currency transaction that includes advance consideration is the date of initial recognition of the non-monetary asset/liability from the prepayment. If there are multiple payments or receipts in advance, a transaction date is established for each payment or receipt.	The amendment is applied on a prospective basis.	No material effect on the Company's consolidated financial statements.

(2) Initial application of new standards

(a) As from 1 January 2018 the Company applies the new standards and amendments to standards described below:

IFRS 9 (2014), Financial Instruments

As from 1 January 2018 the Company applies IFRS 9 (2014), *Financial Instruments* ("**IFRS 9**"), which replaces IAS 39, *Financial Instruments: Recognition and Measurement* ("**IAS 39**"). The Company elected to apply IFRS 9 prospectively, without amending comparative data.

The Company's financial assets previously classified as Receivables under IAS 39, are currently classified as Amortised Cost. Regarding financial liabilities no changes applied due to the first-time adoption of IFRS 9. See Note 3C for further details on the accounting policies applied to financial instruments.

Impairment

The standard includes a new impairment model that changes the calculation of impairment from an incurred loss model to an expected credit loss model, for financial assets not measured at fair value through profit or loss. Expected credit losses ("**ECLs**") are a probability-weighted estimate of credit losses.

The new model is a "forward looking" model that reflects reasonable supportable information that is available without investing unreasonable costs or efforts, with respect to past events, current circumstances, and forecasts regarding future economic circumstances. The new model presents a dual measurement approach for impairment of financial assets: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date. If the credit risk

has increased significantly since initial recognition of the financial debt asset, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset. The effect of the first time application of IFRS 9 and the new model on the consolidated financial statements was immaterial.

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

Provisions for expected credit losses of financial assets measured at amortised cost are deducted from the gross carrying amount of the financial assets.

3. NOTE 3—SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently for all periods presented in these consolidated financial statements, and have been applied consistently by the Company, except as explained in Note 2, Basis of Preparation, under the section addressing changes in accounting policies and changes in classification.

A. Basis of consolidation

(1) Subsidiaries

Subsidiaries are entities controlled by ECI Telecom Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost.

(2) Transactions eliminated on consolidation

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

(3) Non-controlling interests

Non-controlling interests comprise the equity of a subsidiary that cannot be attributed, directly or indirectly, to ECI Telecom Group. As at 30 June 2018 they include preferred shares issued by ECI Telecom Ltd., an entity in which ECI Telecom Group owns all of the issued and outstanding ordinary shares.

Profit or loss and any part of other comprehensive income are allocated to the owners of the Company and the non-controlling interests. Dividends accumulated at a rate of 20% per annum are allocated to the owners of the non-controlling interests and the remaining profit or loss and other comprehensive income are allocated to the owners of the Company.

B. Foreign currency

Transactions in foreign currencies are translated to the functional currency of the Company at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date.

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

Foreign currency differences arising on translation are generally recognised in profit or loss. The income and expenses of foreign operations are translated to USD at exchange rates at the dates of the transactions.

C. Financial instruments

(1) Non-derivative financial assets

Initial recognition of financial assets

The Company initially recognises receivables and deposits on the date that they are created. Non-derivative financial assets comprise trade and other receivables, restricted cash, and cash and cash equivalents.

Derecognition of financial assets

Financial assets are derecognised when the contractual rights of the Company to the cash flows from the asset expire, or the Company transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company, if any, is recognised as a separate asset or liability.

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

As per the accounting policy applied by the Company in periods ending before 1 January 2018, the Company classified its financial assets in the category of Receivables. Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

As from 1 January 2018 the Company has adopted IFRS 9 as set out in Note 2. Upon initial recognition the Company classifies its financial assets in the category of Amortised Cost. Financial assets are not re-classified into other categories in the following periods.

Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition receivables are measured at historical cost, less any impairment losses. Receivables or assets at Amortised Cost comprise cash and cash equivalents, restricted cash, and trade and other receivables.

Cash and cash equivalents include cash balances available for immediate use and call deposits. Cash equivalents include short-term highly liquid investments or deposits (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

Restricted cash includes deposits with financial institutions that are restricted by way of pledge in favour of the said financial institutions to secure their potential obligations under certain bonds issued by them to Company customers as a security for the Company's contractual obligations under tenders and contracts as well as for the Company's obligation under the lease agreement of its headquarter facility in Israel.

(2) Non-derivative financial liabilities

Non-derivative financial liabilities include loans and borrowings from banks and others, finance lease liabilities, royalties payable to the Israel Innovation Authority ("**IIA**"), and trade and other payables.

Initial recognition of financial liabilities

The Company initially recognises loans and borrowings issued on the date that they originated. All other financial liabilities are recognised initially on the trade date at which the Company becomes a party to the contractual provisions of the instrument.

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

Transaction costs directly attributable to an expected issuance of an instrument that will be classified as a financial liability are recognised as an asset as part of deferred expenses in the statement of financial position. These transaction costs are deducted from the financial liability upon its initial recognition, or are amortised as financing expenses in the statement of income when the issuance is no longer expected to occur.

Derecognition of financial liabilities

Financial liabilities are derecognised when the obligation of the Company, as specified in the agreement, expires or when it is discharged or cancelled.

(3) Derivatives that do not serve hedging purposes

The changes in fair value of these derivatives are recognised in profit or loss, as financing income or expense.

Separable embedded derivatives

Embedded derivatives are separated from the host contract and accounted for separately if (a) the economic characteristics and risks of the host contract and the embedded derivative are not closely related, (b) a separate

instrument with the same terms as the embedded derivative would meet the definition of a derivative, and (c) the combined instrument is not measured at fair value through profit or loss.

Changes in the fair value of separable embedded derivatives are recognised in profit or loss, as financing income or expense.

D. Share capital

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects. Incremental costs directly attributable to an expected issuance of an instrument that will be classified as an equity instrument are recognised as an asset in deferred expenses in the statement of financial position. The costs are deducted from equity upon the initial recognition of the equity instruments, or are amortised as financing expenses in the statement of income when the issuance is no longer expected to take place.

E. Fixed assets

Fixed assets are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. The cost of fixed assets includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of the assets as follows:

- Buildings — 40 years
- Machinery and equipment — 3 to 10 years (mainly 10 years)
- Office furniture and equipment — 10 to 14 years
- Computers — 3 to 5 years
- Leasehold improvements — The shorter of the lease term and the useful life
- Vehicles — 6 years

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

For details on accounting policy applied in respect of right-of-use assets arising from leases. See Note 3M.

F. Intangible assets

(1) Goodwill

The goodwill was created upon the acquisition of all the shares of ECI Telecom Ltd. that took place in 2007. In subsequent periods goodwill is measured at cost less accumulated impairment losses.

Once a year and on the same date, or more frequently if there are indications of impairment, the Company estimates the recoverable amount of the goodwill. In 2018, and 2017, no impairment of goodwill was recognised.

(2) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new technical knowledge and understanding, is recognised in profit or loss when incurred.

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

In subsequent periods, capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses, if any. The Company periodically estimates the recoverability of development costs. The recoverable amount as of 30 June 2018 and 2017 and 31 December 2017 was estimated to be higher than the respective carrying amounts and no provision for impairment was required.

(3) Other intangible assets

Other intangible assets, that are acquired by the Company, which have finite useful lives, are measured at cost less accumulated amortisation and accumulated impairment losses, if any.

(4) Subsequent expenditure

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

(5) Amortisation

Amortisation is recognised in profit or loss on a straight-line basis, over the estimated useful lives of the intangible assets from the date they are available for use. Goodwill and intangible assets having an indefinite useful life are not systematically amortised but are tested for impairment at least once a year. Internally generated intangible assets are not systematically amortised as long as they are not available for use or sale. Accordingly, these intangible assets, such as capitalised development costs, are tested for impairment at least once a year, until such date as they are available for use or sale.

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

- Core technology and Patents — 7 to 10 years
- Capitalised development costs — 3 years
- Software products — 3 to 5 years

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

The Company examines the useful life of an intangible asset that is not periodically amortised at least once a year in order to determine whether events and circumstances continue to support the decision that the intangible asset has an indefinite useful life.

G. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the moving average, and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

H. Impairment

(1) Non-derivative financial assets

Accounting policy applicable in periods ending before 1 January 2018:

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include:

- Default by a debtor;
- Restructuring of an amount due to the Company on terms that the Company would not consider otherwise;
- Indications that a debtor or issuer will enter bankruptcy.

The Company considers evidence of impairment for trade and other receivables at both a specific asset and collective level. All individually significant trade and other receivables are assessed for specific impairment. All individually significant trade and other receivables found not to be specifically impaired are then collectively assessed for any impairment that has incurred but has not yet been identified. Trade and other

receivables that are not individually significant are collectively assessed for impairment by grouping together loans, receivables and held-to-maturity investments with similar risk characteristics.

In assessing collective impairment the Company uses historical data for the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

As from 1 January 2018 the Company has adopted IFRS 9 as set out in Note 2:

The Company recognises loss allowances for ECLs on its financial assets measured at amortised cost. Loss allowances for trade receivables are measured at an amount equal to lifetime ECL. Lifetime ECLs are the ECLs that result from all possible default events over the expected life of the financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

(2) Non-financial assets

Timing of impairment testing

The carrying amounts of the Company's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Once a year and on the same date, or more frequently if there are indications of impairment, the Company estimates the recoverable amount of the goodwill.

Recognition of impairment loss

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. As regards goodwill, an impairment loss is recognised when the carrying amount of the cash generating unit, which includes the goodwill, exceeds its recoverable amount.

Reversal of impairment loss

An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment losses were recognised in prior periods, if any, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

I. Employee benefits

(1) Post-employment benefits

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

(a) Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans or insurance policies are recognised as an expense in profit or loss in the periods during which related services are rendered by employees.

The majority of the Company's agreements with employees in Israel are in accordance with Section 14 of the Severance Pay Law, 1963 ("**Section 14**"), which is categorised as a Defined Contribution Plan.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted.

The discount rate used for the Israeli defined benefit plans is the yield at the reporting date on high quality shekel-denominated corporate debentures, that have maturity dates approximating the terms of the Company's obligations. The calculation is performed at least annually by a qualified actuary using the projected unit credit method.

Re-measurements of the net defined benefit liability comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Re-measurements are recognised immediately directly in retained earnings through other comprehensive income.

Interest costs on defined benefit obligations and interest income on plan assets that were recognised in profit or loss are presented under financing income and expenses, respectively.

The Company's liability for severance pay to its Israel-based employees not under Section 14, and employees in countries other than Israel is calculated pursuant to Israel's Severance Pay Law, or in other countries pursuant to local laws, and in accordance with the principles of accounting for defined benefit plans. The liability in Israel is mostly covered by amounts the Company deposits in external pension and severance funds managed by unrelated financial institutions and to a lesser extent by the unfunded provision.

(2) Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as vacation leave).

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

(3) Share-based payment transactions

The grant date fair value of share-based payment awards granted to employees is recognised as a salary expense, with a corresponding increase in equity, over the period that the employees become unconditionally entitled to the awards. The Company's share-based payment awards will be exercisable following the lapse of their vesting periods and the earlier of (i) an IPO; or (ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, expense will be recorded in respect of these awards only when such an event becomes probable.

J. Provisions

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

(1) Warranties

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

(2) Reorganisation

A provision for reorganisation is recognised when the Company has approved a detailed and formal reorganisation plan, and the reorganisation either has commenced or has been announced publicly. The provision includes direct expenditures caused by the reorganisation and that are necessary for the reorganisation, and which are not associated with the continuing activities of the Company.

(3) Legal claims

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

K. Revenue

The Company recognises revenue when the customer obtains control over the promised goods or services. The revenue is measured according to the amount of the consideration to which the Company expects to be entitled in exchange for the goods or services promised to the customer. This is performed based on a five step model for recognising revenue from contracts with customers:

(1) Identifying the contract with the customer.

(2) Identifying distinct performance obligations in the contract.

(3) Determining the transaction price.

(4) Allocating the transaction price to distinct performance obligations.

(5) Recognising revenue when the performance obligations are satisfied.

(1) Identifying the contract

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

(a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;

(b) The Company can identify the rights of each party in relation to the goods or services that will be transferred;

(c) The Company can identify the payment terms for the goods or services that will be transferred;

(d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and

(e) It is probable that the consideration, to which the Company is entitled to in exchange for the goods or services transferred to the customer, will be collected.

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

(2) Identifying distinct performance obligations

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

(a) Goods or services (or a bundle of goods or services) that are distinct; or

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

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

(3) Determining the transaction price

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

In order to measure the transaction price, the Company adjusts the amount of the promised consideration in respect of the effects of a significant financing component. When assessing whether a contract contains a significant financing component, the Company examines, inter alia, the expected length of time between the date the Company transfers the promised goods or services to the customer and the date the customer pays for these goods or services, as well as the difference, if any, between the amount of the consideration promised and the cash selling price of the promised goods or services.

When the contract contains a significant financing component, the Company recognises the amount of the consideration using the discount rate that would be reflected in a separate financing transaction between it and the customer on the contract's inception date. The financing component is recognised as interest income over the period, which is calculated according to the effective interest method.

In cases where the difference between the time of receiving payment and the time of transferring the goods or services to the customer is one year or less, the Company applies the practical expedient included in the standard and does not separate a significant financing component.

(4) Satisfaction of performance obligations

Revenue is recognised when the Company satisfies a performance obligation by transferring to the customer control over promised goods or services. When control over the goods or services is transferred at a point in time, revenue is recognised only when the product is handed over to the customer, or the service has been provided. When the Company transfers control over time, such as in service arrangements, it recognises revenue over time.

The Company recognises revenues over time by measuring progress towards full satisfaction of the performance obligation in a manner that reflects the Company's performance in transferring the control over the goods or services that were promised to the customer.

Warranties are provided only in order to ensure the quality of the work and compliance with the specifications agreed between the parties, and do not constitute an additional service to the customer. Therefore, the Company does not identify the warranty as a distinct performance obligation but rather accounts for it in accordance with the guidance in IAS 37 and recognises a provision for warranty at the estimated cost of such services.

Revenue from sales to resellers

The Company makes certain sales through resellers. The Company recognises revenues from sales to resellers, assuming all other criteria for revenue recognition are met and provided that there is no contractual right of return, either (i) when it receives adequate collateral (which in many cases is a Letter of Credit) from the

reseller to secure payment to the Company, or (ii) in certain instances where the Company has an established ongoing relationship with the reseller and a proven track record of payments, when it receives written evidence of the identity of the end-user and the existence of an agreement by the end-user to purchase the product from the reseller (e.g. a copy of a purchase order) or (iii) in instances where the reseller is a major internationally known corporation and the Company has an established ongoing relationship with such reseller and a proven track record of payments, upon delivery of the products to the reseller. When the collectability from the reseller is not reasonably assured, revenue is recognised on a cash basis, provided that the reseller has ultimately sold the products to an end-user.

L. Government grants

Grants are recognised initially at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. Grants from the IIA in respect of research and development projects are accounted for as forgivable loans according to IAS 20.

Grants received are recognised as a liability according to their fair value on the date of their receipt, estimated at the present value of the future royalties payments, unless on that date it is reasonably certain that the amount received will not be refunded. The present value of the future payments is discounted using an interest rate that is estimated by the Company's management to reflect the risk inherent in the relevant research and development project, future revenues from certain products and their timing. The amount of the liability is re-examined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognised in profit or loss, as part of research and development expenses. The difference between the amount received and the fair value on the date of receiving the grant is recognised as a deduction of research and development expenses.

M. Leases

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability. The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of fixed assets (see Note 3E). In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

The lease liability is measured at amortised cost using the effective interest method. It is re-measured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is re-measured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

N. Financing income and expenses

Financing expenses comprise interest expense on borrowings, changes in time value of provisions and other financial liabilities, changes in the fair value of derivatives that resulted in net loss in the year, net foreign exchange losses, and others. Borrowing costs are recognised in profit or loss using the effective interest method.

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

In the statements of cash flows, interest paid is presented as part of cash flows from financing activities.

O. Income tax expense

Income tax comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss, or are recognised directly in equity or in other comprehensive income to the extent they relate to items recognised directly in equity or in other comprehensive income.

Current taxes

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

Offset of current tax assets and liabilities

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

Uncertain tax positions

A provision for uncertain tax positions, including additional tax and interest expenses, is recognised when it is more likely than not that the Company will have to use its economic resources to pay the obligation.

Deferred taxes

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

- Certain undistributed earnings of foreign consolidated subsidiaries which are taxable upon distribution by way of dividend, as no such dividend distribution intention exists.
- Unused tax losses to the extent that it is not probable that future taxable profits will be available against which they can be utilised.

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

A deferred tax asset is recognised for unutilised tax losses, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred tax assets that were not recognised are reevaluated at each reporting date and recognised if it has become probable that future taxable profits will be available against which they can be utilised.

Offset of deferred tax assets and liabilities

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset deferred tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle deferred tax liabilities and assets on a net basis or their deferred tax assets and liabilities will be realised simultaneously.

P. Earnings per share

The Company presents basic and diluted earnings per share ("**EPS**") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury shares, for the effects of all dilutive potential ordinary shares, share options and share options granted to employees.

Q. New standards and interpretations not yet adopted

(1) IFRIC 23, Uncertainty Over Income Tax Treatments

IFRIC 23 clarifies how to apply the recognition and measurement requirements of IAS 12 for uncertainties in income taxes. According to IFRIC 23, when determining the taxable profit (loss), tax bases, unutilised tax losses, unutilised tax credits and tax rates when there is uncertainty over income tax treatments, the entity should assess whether it is probable that the tax authority will accept its tax position. Insofar as it is probable that the tax authority will accept the entity's tax position, the entity will recognise the tax effects on the financial statements according to that tax position. On the other hand, if it is not probable that the tax authority will accept the entity's tax position, the entity is required to reflect the uncertainty in its accounts by using one of the following methods: the most likely outcome or the expected value. IFRIC 23 clarifies that when the entity examines whether or not it is probable that the tax authority will accept the entity's position, it is assumed that the tax authority with the right to examine any amounts reported to it will examine those amounts and that it has full knowledge of all relevant information when doing so. Furthermore, according to IFRIC 23 an entity has to consider changes in circumstances and new information that may change its assessment.

IFRIC 23 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. The interpretation includes two alternatives for applying the transitional provisions, so that companies can choose between retrospective application or prospective application as from the first reporting period in which the entity initially applied the interpretation. The Company is examining the expected effects of its application on the financial statements.

4. NOTE 4—OPERATING SEGMENTS

The Company operates in one business segment only, namely the development, production and marketing of network solutions.

Entity level disclosures

Major customers

Revenues from major customers of the Company, as a percentage of consolidated revenues for the year (when they exceed 10%), are as follows:

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
		(Unaudited)	
Customer 1	**26%**	28%	27%
Customer 2	**17%**	*	12%

* Represents an amount of less than 10%

Revenues by geographical regions

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
EMEA	**49,861**	48,415	116,089
India	**92,127**	68,785	154,961
Israel	**40,107**	21,328	56,709
RoW	**15,605**	20,506	39,448
	197,700	159,034	367,207

Management considers as significant revenues from customers attributed to the group of countries known as EMEA, which includes Europe, Middle East (excluding Israel which is the Company's country of domicile and therefore presented separately) and Africa. Revenues are presented separately for India due to materiality and all other foreign countries are presented in total as RoW (rest of world).

Most of the Company's non-current assets are located in Israel.

Revenues from sale of products and services

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Products	**155,732**	121,145	290,036
Services	**41,968**	37,889	77,171
	197,700	159,034	367,207

5. NOTE 5—COST OF SALES

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Finished products consumed	**86,273**	**68,349**	155,973
Other operations and logistic costs	**16,851**	**14,592**	31,689
Service costs	**17,978**	**14,784**	30,627
Amortisation of development costs capitalised	**9,742**	**9,295**	19,076
	130,844	**107,020**	237,365

6. NOTE 6—RESEARCH AND DEVELOPMENT EXPENSES

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Salaries, wages and related expenses (see also Note 18 on employee benefits)	**25,785**	27,378	55,241
Depreciation and amortisation	**3,457**	3,786	7,440
Maintenance of buildings	**2,294**	2,370	5,145
Material expenditure	**738**	1,083	1,658
Other research and development expenses	**1,222**	2,048	3,556
Expenses incurred	**33,496**	36,665	73,040
Less development costs capitalised	**(16,126)**	(13,567)	(23,583)
Less participation of the government of Israel in research and development expenses[(1)]	**(3,052)**	(1,014)	(6,368)
	14,318	22,084	43,089

(1) For information on a commitment to pay royalties to the government of Israel, see Note 25 on commitments.

7. NOTE 7—SELLING AND MARKETING EXPENSES

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Salaries, wages and related expenses (see also Note 18 on employee benefits)	**15,615**	15,386	31,050
Sales commissions	**4,406**	2,762	7,636
Depreciation and amortisation	**2,012**	1,815	3,639
Maintenance of buildings	**1,762**	1,642	3,534
Travel and related expenses	**2,115**	2,085	4,297
Other selling and marketing expenses	**3,054**	2,167	4,681
	28,964	25,857	54,837

8. NOTE 8—GENERAL AND ADMINISTRATIVE EXPENSES

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Salaries, wages and related expenses (see also Note 18 on employee benefits)	**8,959**	7,620	15,041
Provision for doubtful debts	**182**	103	156
Depreciation and amortisation	**1,348**	1,302	2,637
Other general and administrative expenses	**516**	147	874
	11,005	9,172	18,708

9. NOTE 9—FINANCING INCOME AND EXPENSES

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Financing income			
Interest mainly from bank deposits and receivables	**113**	44	41
Total financing income	**113**	44	41
Financing expenses			
Interest expense on loans	**11,381**	18,585	36,650
Interest expense on leases	**1,189**	1,222	2,500
Interest expense on royalties to IIA	**1,992**	1,230	2,560
Interest expense on other liabilities	**505**	330	1,046
Bank charges and factoring fees	**3,307**	3,118	6,487
Change in fair value of derivatives (see Note 19)	**9,407**	—	—
Net foreign exchange loss	**77**	2,648	2,535
Other	**177**	375	493
Total financing expenses	**28,035**	27,508	52,271
Net financing expenses	**27,922**	27,464	52,230

10. NOTE 10—INCOME TAX

A. Details regarding the tax environment of the Company

(1) Corporate tax rate

(a) Presented hereunder are the tax rates relevant to the Company and its Israeli subsidiaries in the years 2017–2018:

2017—24%
2018—23%

On 22 December 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018)—2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018. As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at 30 June 2018 were calculated at the tax rate expected to apply on the date of reversal.

Current taxes for the reported periods are calculated according to the tax rates presented above.

(b) Tax benefits under the Law for the Encouragement of Capital Investments, 1959 (the "**Investments Law**");

During January 2011 an amendment to the Investments Law (the "**Amendment**") became effective. The Amendment's provisions apply to Preferred Income derived or accrued in 2011 and thereafter by a Preferred Company, per the definition of these terms in the Amendment. Companies can choose not to be

included in the scope of the Amendment and to stay in the scope of the Investments Law before its amendment until the end of the benefits period of its approved/beneficiary enterprise.

The amendment provides a uniform and reduced tax rate for all the Company's income entitled to the benefits ("**Preferred Income**"). Starting from tax year 2014, the tax rate on Preferred Income for a company operating in the same area as ECI Telecom Ltd. is 16%.

As part of the 2016 Budget Law, inter alia, the Investments Law was amended such that a company that meets certain criteria ("**Preferred Technology Enterprise**"), starting from 1 January 2017 will benefit from a tax rate on Preferred Income derived from Intellectual Property, as defined in the amended law, for a company operating in the same area as ECI Telecom Ltd., of 12%. The Company's management believes that ECI Telecom Ltd.'s operations meet the criteria in order to qualify for the benefits of the Preferred Technology Enterprise.

The Amendment also provides that no tax will apply to a dividend distributed out of Preferred Income to an Israeli resident company shareholder. A tax rate of 20% shall apply to a dividend distributed out of Preferred Income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. A reduced tax rate of 4% shall apply to a dividend distributed out of the income of Preferred Technology Enterprise to a foreign resident company, if 90% or higher of the distributing entity is held directly by foreign entities.

(c) Measurement of results for tax purposes under the Income Tax Law

The measurement of the Company's results for tax purposes is calculated based on the Income Tax Regulations (principles for the bookkeeping of foreign invested companies and of certain partnerships and the determination of their taxable income)—1986. Accordingly, the taxable income or loss is calculated in U.S. dollars.

(d) Tax benefits under the Law for the Encouragement of Industry (Taxation), 1969

The Company is an "Industrial Holding Company" as defined by this law, and as such is entitled, among other benefits, to claim accelerated depreciation of machinery and equipment as prescribed by regulations issued under the inflationary adjustments tax law.

Starting from 2013 tax year, the Company elected to file a consolidated return for tax purposes, together with its subsidiary, ECI Telecom Ltd., in accordance with the provisions of this law.

(e) Non-Israeli subsidiaries are taxed based upon tax laws in their countries of residence.

B. Composition of income tax expense (income)

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Current tax expense	**1,583**	1,377	3,126
Deferred tax expenses (income)	**450**	408	(305)
Income tax expense	**2,033**	1,785	2,821

C. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense:

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Loss before taxes on income	**(16,733)**	(32,563)	(39,022)
Primary tax rate of the Company	**23%**	24%	24%
Tax calculated according to the Company's primary tax rate	**(3,849)**	(7,815)	(9,365)
Additional tax (tax saving) in respect of:			
Different tax rate of foreign subsidiaries	**141**	282	755
Difference between measurement basis of income/expenses for tax purposes and measurement basis of income/expenses for financial reporting purposes	**(5,578)**	4,945	5,448
Current year tax losses and benefits for which deferred taxes were not created	**10,959**	3,383	5,289
Taxes in respect of previous years	**—**	(101)	(158)
Other differences	**360**	1,091	852
Income tax expense	**2,033**	1,785	2,821

D. Deferred tax assets and liabilities

Deferred taxes are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above. The movement in deferred tax assets and liabilities is attributable to changes recognised in profit and loss.

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Research and development costs, net	**7,863**	7,074	6,751
Vacation pay accruals, severance pay fund, net, and other accruals	**2,694**	3,204	3,000
Deferred tax assets	**10,557**	10,278	9,751
Deferred tax liabilities:			
Capitalised development costs and other intangibles	**7,954**	7,301	6,620
Fixed assets	**472**	529	482
Deferred tax liabilities	**8,426**	7,830	7,102
Deferred tax assets, net	**2,131**	2,448	2,649

As at 30 June 2018, the Company did not create deferred tax assets, mainly for carryforward losses and other temporary differences, in a total amount of approximately $536.8 million ($544.7 million and $531.9 million as at 30 June 2017 and 31 December 2017, respectively).

E. Carry-forward losses

As at 30 June 2018, the Company and its subsidiaries had, for tax purposes, operating loss carryforwards, capital loss carryforwards, loss from marketable securities, and general business tax credit carryforward of $1,559.6 million, $177.7 million, $55.5 million and $3.6 million, respectively.

In general, under the United States tax law Section 382 of the Internal Revenue Code of 1986, a corporation that undergoes an "ownership change" is subject to limitations on its ability to utilize its pre-change net operating losses ("**NOLs**"), to offset future taxable income. As at 30 June 2018, the US subsidiary has $130.4 million NOLs out of which $41.7 million are subject to Internal Revenue Code Section 382 limitations. In addition, these U.S federal net operating loss carryforwards will expire over the period of 2018 through 2027.

The remainder of the consolidated operating loss carryforwards has no expiration period. Substantially, all of the capital losses have an unlimited carryforward period.

F. Tax assessments

The Company files income tax returns in various jurisdictions with varying statutes of limitations. ECI Telecom Group and its subsidiaries in Israel have received final tax assessments or tax assessments that are considered as final due to lapse of statute of limitation period, through tax year 2012.

11. NOTE 11—FIXED ASSETS

	Right of use leased buildings and cars	Land and buildings	Machinery and equipment	Motor vehicles	Office furniture, equipment and accessories	Computers	Total
	$ in thousands						
Cost							
Balance as at 1 January 2018	**50,964**	**39,413**	**154,044**	**793**	**6,319**	**78,349**	**329,882**
Additions	**2,745**	**298**	**471**	**—**	**28**	**288**	**3,830**
Disposals	**—**	**—**	**(85)**	**—**	**(10)**	**—**	**(95)**
Balance as at 30 June 2018	**53,709**	**39,711**	**154,430**	**793**	**6,337**	**78,637**	**333,617**
Balance as at 1 January 2017	46,079	38,767	151,661	789	6,288	77,841	321,425
Additions	3,620	454	786	4	110	189	5,163
Disposals	—	(222)	(323)	—	(98)	(96)	(739)
Balance as at 30 June 2017 (Unaudited)	49,699	38,999	152,124	793	6,300	77,934	325,849
Balance as at 1 January 2017	46,079	38,767	151,661	789	6,288	77,841	321,425
Additions	4,885	862	2,943	4	142	667	9,503
Disposals	—	(216)	(560)	—	(111)	(159)	(1,046)
Balance as at 31 December 2017	50,964	39,413	154,044	793	6,319	78,349	329,882
Depreciation							
Balance as at 1 January 2018	**33,850**	**15,210**	**145,925**	**616**	**6,062**	**75,515**	**277,178**
Depreciation for the period	**3,217**	**196**	**1,545**	**34**	**37**	**586**	**5,615**
Disposals	**—**	**—**	**(85)**	**—**	**(10)**	**—**	**(95)**
Balance as at 30 June 2018	**37,067**	**15,406**	**147,385**	**650**	**6,089**	**76,101**	**282,698**
Balance as at 1 January 2017	27,697	14,926	143,042	553	6,080	74,479	266,777
Depreciation for the period	3,018	228	1,603	32	36	574	5,491
Disposals	—	(172)	(315)		(92)	(92)	(671)
Balance as at 30 June 2017 (Unaudited)	30,715	14,982	144,330	585	6,024	74,961	271,597
Balance as at 1 January 2017	27,697	14,926	143,042	553	6,080	74,479	266,777
Depreciation for the year	6,153	454	3,429	63	74	1,188	11,361
Disposals	—	(170)	(546)	—	(92)	(152)	(960)
Balance as at 31 December 2017	33,850	15,210	145,925	616	6,062	75,515	277,178
Carrying amounts							
As at 30 June 2018	**16,642**	**24,305**	**7,045**	**143**	**248**	**2,536**	**50,919**
As at 30 June 2017 (Unaudited)	18,984	24,017	7,794	208	276	2,973	54,252
As at 31 December 2017	17,114	24,203	8,119	177	257	2,834	52,704

12. NOTE 12—INTANGIBLE ASSETS

A. Movement in carrying amount

	Goodwill	Development costs	Software	Total
	$ in thousands			
Cost				
Balance as at 1 January 2018	**325,078**	**260,767**	**95,836**	**681,681**
Additions	**—**	**16,126**	**2,390**	**18,516**
Balance as at 30 June 2018	**325,078**	**276,893**	**98,226**	**700,197**
Balance as at 1 January 2017	325,078	237,184	91,887	654,149
Additions	—	13,567	2,373	15,940
Balance as at 30 June 2017 (Unaudited)	325,078	250,751	94,260	670,089
Balance as at 1 January 2017	325,078	237,184	91,887	654,149
Additions	—	23,583	3,949	27,532
Balance as at 31 December 2017	325,078	260,767	95,836	681,681
Amortization and impairment losses				
Balance as at 1 January 2018	**120,078**	**220,776**	**84,299**	**425,153**
Amortization for the period	**—**	**9,742**	**2,869**	**12,611**
Balance as at 30 June 2018	**120,078**	**230,518**	**87,168**	**437,764**
Balance as at 1 January 2017	120,078	201,700	78,481	400,259
Amortization for the period	—	9,295	2,864	12,159
Balance as at 30 June 2017 (Unaudited)	120,078	210,995	81,345	412,418
Balance as at 1 January 2017	120,078	201,700	78,481	400,259
Amortization for the year	—	19,076	5,818	24,894
Balance as at 31 December 2017	120,078	220,776	84,299	425,153
Carrying amounts				
As at 30 June 2018	**205,000**	**46,375**	**11,058**	**262,433**
As at 30 June 2017	205,000	39,756	12,915	257,671
As at 31 December 2017	205,000	39,991	11,537	256,528

B. Amortisation

The current amortisation of development costs is recognised in cost of sales. Amortisation of patents and technology was recognised in amortisation of intangible assets. Current amortisation of software is allocated and recognised in the income statements in respect of the activity in which the software item is used.

C. Key assumptions used in calculation of recoverable amount of goodwill

Key assumptions used in the calculation of recoverable amounts are discount rates and terminal value growth rates. These assumptions are as follows:

Discount rate	Terminal value growth rate
2017	**2017**
%	**%**
14	**3**

13. NOTE 13—SUBSIDIARIES

A. Subsidiaries including consolidated entities

Presented hereunder is a list of the Company's material subsidiaries:

	Principal location of the company's activity	The Company's ownership interest in the subsidiary		
		For the six months ended 30 June		for the year ended 31 December
		2018	2017	2017
ECI Telecom Group Ltd.				
ECI Telecom Ltd.	Israel	**100%**	100%	100%
Negev Telecom Ltd.	Israel	**100%**	100%	100%
ECI Telecom Holdings B.V.	Netherlands	**100%**	100%	100%
ECI Telecom India Private Ltd.	India	**100%**	100%	100%
Hangzhou ECI Telecommunications Co., Ltd.	China	**100%**	100%	100%
ECI Telecom 2005 LLC	Russia	**100%**	100%	100%
ECI Telecom Inc.	United-States	**100%**	100%	100%
ECI Telecom (GmbH)	Germany	**100%**	100%	100%
ECI Telecom (UK) Ltd.	United Kingdom	**100%**	100%	100%
ECI Telecom (PH), Inc.	Philippines	**100%**	100%	100%
ECI Telecom (HK) Ltd.	Hong-Kong	**100%**	100%	100%
ECI De Mexico, S.A. De C.V.	Mexico	**100%**	100%	100%
ECI Telecom DO BRAZIL	Brazil	**100%**	100%	100%
ECI Telecom sur America Ltda	Colombia	**100%**	100%	100%
ECI de Argentina SA	Argentina	**100%**	100%	100%
ECI Telecom Ukraine LLC	Ukraine	**100%**	100%	100%
ECI Telecom SAS	France	**100%**	100%	100%
ECI Telecom Costa Rica S.A.	Costa-Rica	**100%**	100%	100%
ECI Telecom Chile Ltda	Chile	**100%**	100%	100%
ECI Telekom SP z.o.o.	Poland	**100%**	100%	100%
ECI Networks Solutions B.V.	Netherlands	**100%**	100%	100%

B. Significant restrictions on transfer of resources between the Company's entities

There are no significant restrictions on the ability of subsidiaries to transfer funds between the group members and there are no restrictions on the ability to transfer funds from the subsidiaries to ECI Telecom Ltd.

C. Non-controlling interests in ECI Telecom Ltd.

In March 2018, as part of the Debt Refinancing, ECI Telecom Ltd. issued and sold to an investment fund ("**Argentem**") 1,000,000 preferred shares in consideration for $66.5 million (the "**Preference Amount**").

Amounts accumulated at a rate of 20% per annum of the Preference Amount are allocated to the owners of the non-controlling interests out of the net loss for the period.

The holders of the preferred shares are also entitled to receive, in the event of a Liquidity Event, as defined in the investment agreement, an amount equal to the sum that would accrue on the Preference Amount at a rate of 10% and an additional amount calculated based on the timing of such an event and on the net proceeds of such Liquidity Event, subject to maximum and minimum amounts. As per IFRSs, the Company did not account for such additional contingent amount as a separable derivative.

14. NOTE 14—INVENTORIES

	30 June		31 December
	2018	2017	2017
		(Unaudited)	
	$ in thousands	$ in thousands	$ in thousands
Raw materials and consumables	**9,287**	8,423	8,909
Work in progress	**448**	398	287
Finished goods	**52,149**	48,660	49,714
	61,884	57,481	58,910

For further details on inventory under liens see Note 25.

15. NOTE 15—TRADE AND OTHER RECEIVABLES

Current assets

	30 June 2018	30 June 2017	31 December 2017
		(Unaudited)	
	$ in thousands	$ in thousands	$ in thousands
Trade receivables[(1)]	**81,524**	70,652	93,247
Less provision for doubtful debts	**(1,740)**	(3,433)	(1,958)
	79,784	67,219	91,289
Other receivables[(2)]			
Advances to suppliers	**492**	798	693
Prepaid expenses	**3,034**	2,813	3,737
Tax authorities	**4,794**	3,469	4,300
Subcontractors	**12,775**	3,389	13,661
Other receivables	**2,649**	2,523	2,349
	23,744	12,992	24,740
(1) Including trade receivables due from related parties	—	—	7,500
(2) Including other receivables due from related parties	**605**	528	630

Non-current assets

	30 June 2018	30 June 2017	31 December 2017
		(Unaudited)	
	$ in thousands	$ in thousands	$ in thousands
Trade receivables	**7,591**	1,365	1,956

Details regarding maturity dates of trade and other receivables

	Carrying amount	1 year	2–3 years	More than 3 years
	$ in thousands			
	30 June 2018			
Trade receivables	87,375	79,784	7,591	—
	30 June 2017			
Trade receivables	68,584	67,219	1,365	—
	31 December 2017			
Trade receivables	93,245	91,289	1,926	30

See Note 26 on related parties for information on trade and other receivables due from related parties.

The Company's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 24 to the financial statements.

Aging of trade receivables at the reporting date:

	30 June				31 December	
	2018		2017		2017	
	Trade receivables gross	Provision for doubtful debts	Trade receivables gross	Provision for doubtful debts	Trade receivables gross	Provision for doubtful debts
			(Unaudited)			
	$ in thousands	$ in thousands	$ in thousands	$ in thousands	$ in thousands	$ in thousands
Not past due	**80,866**	**106**	65,587	—	88,780	—
Past due up to 90 days	**2,480**	**11**	2,021	—	3,224	—
Past due 91–180 days	**1,859**	**3**	646	—	848	—
Past due 181–360 days	**1,697**	**2**	195	—	122	—
Past due more than 360 days	**2,213**	**1,618**	3,565	3,433	2,229	1,958
Total past due	**8,249**	**1,634**	6,430	3,433	6,423	1,958
Total trade receivables	**89,115**	**1,740**	72,017	3,433	95,203	1,958

16. NOTE 16—CAPITAL AND RESERVES

A. Share capital (in shares of NIS 0.01 par value)

	Ordinary shares		
	30 June		31 December
	2018	2017	2017
Issued and paid-in share capital as at	**42,337,655**	33,870,124	33,870,124
Authorised share capital	**189,999,990**	200,000,000	200,000,000

B. Commitments to issue equity instruments

(1) Capital note

In 2014 the Company entered into an agreement with ECI Holding (Hungary) KFT (the "**Parent Company**"), a Hungarian company, which as at 30 June 2018 held 80% of the ordinary shares of the Company and a group of private venture lending funds in Israel (the "**Lending Funds**"), according to which a loan then outstanding between the Company and the Lending Funds, in total amount of $37.9 million, was converted into a note which will thereafter bear no interest and shall be irrevocably and fully repayable through conversion into a fixed number of ordinary shares of the Company, upon the occurrence of certain events.

As a result, the note was included as part of shareholders' equity.

During June 2018, the note was converted into share capital, and the Company issued, 8,467,531 ordinary shares.

(2) See Note 21 on share-based payments regarding options allotted to employees.

C. Preferred and Special Shares

In March 2018, 10,000,000 authorised Shares were converted and reclassified into 10,000,000 Preferred A Shares of NIS 0.01 par value each, and 10 authorised shares were converted and reclassified into 10 Special Shares of NIS 0.01 par value each.

In March 2018, in connection with the Debt Refinancing, the Company issued and sold 9,825,023 Preferred A Shares to the Parent Company, in consideration for a total amount of $85.8 million, as follows: (a) the Parent Company sold to the Company uncollected trade receivables in total amount of $10.0 million, previously assigned by ECI Telecom Ltd. to the Parent Company as part of a factoring arrangement (see Note 24H); (b) the Parent Company assigned to ECI Telecom Group its right to receive amounts collected by ECI Telecom Ltd. on behalf of the Parent Company as part of a factoring arrangement (see Note 24H), in total amount of $31.8 million; and (c) the Parent Company contributed to the Company an amount of $44.0 million.

In June 2018, in connection with the Debt Refinancing, the Company issued and sold 174,977 Preferred A Shares to the Lending Funds, in consideration for the Lending Funds assigning to the Company their right to receive amounts collected by ECI Telecom Ltd. on behalf of the Lending Funds as part of a factoring arrangement (see Note 24H) in a total amount of $1.5 million.

The Preferred A Shares in total amount of $87.3 million, have preference in liquidation, and accumulate at a rate of 12% per annum.

In March 2018, in connection with the Debt Refinancing, the Company issued and sold 10 Special Shares to Argentem. The Special Shares confer similar rights to the rights attached to the preferred shares in ECI Telecom Ltd. (see note 13C), and are subject to certain call and buy-back rights.

17. NOTE 17—LOSS PER SHARE

The calculation of basic and diluted losses per share as at 30 June 2018 was based on the losses attributable to the Company's ordinary shareholders for the period divided by a weighted average number of ordinary shares outstanding, calculated as follows:

	For the six months ended 30 June		For the year ended 31 December
	2018	**2017**	**2017**
		(Unaudited)	
Loss attributable to ordinary shareholders ($ in thousands)	**(22,091)**	(34,348)	(41,843)
Weighted average number of ordinary shares:			
Balance at beginning of period	**33,870**	33,870	33,870
Effect of shares issued during the period (in thousands) (see Note 16)	**1,170**	—	—
Weighted-average shares—basic (in thousands) as at end of period	**35,040**	33,870	33,870
Effect of dilutive share incentive	**—**	—	—
Weighted-average shares—dilutive (in thousands) as at end of period	**35,040**	33,870	33,870
Basic and dilutive loss per share ($)	**(0.63)**	(1.01)	(1.24)

18. NOTE 18—EMPLOYEE BENEFITS

Employee benefits include post-employment severance and pension benefits, vacation pay, short-term benefits and share-based payments.

As regards share-based payments see Note 21 on share-based payments.

As regards benefits to key management employees see Note 26 on related parties.

Composition of employee benefits:

	30 June		31 December
	2018	**2017**	**2017**
	$ in thousands	**(Unaudited) $ in thousands**	**$ in thousands**
Presented under current liabilities—other payables:			
Short-term employee benefits[(1)]	**16,164**	14,842	15,826
Current maturities of pension benefits (C)	**364**	629	469
Total	**16,528**	15,471	16,295
Presented under non-current liabilities—employee benefits:			
Recognised liability for defined benefit plan, net (A(2))	**2,451**	2,328	2,641
Liability for vacation pay (B)	**3,558**	3,716	3,878
Pension benefits (C)	**236**	597	424
Total	**6,245**	6,641	6,943

(1) Short-term employee benefits include liabilities for last salary payable, bonuses, incentives, vacation pay and others expected to be utilised within the next 12 months.

A. Post-employment benefit plans

In some locations in the world, including Israel, the Company`s employees are entitled to severance pay under local law, including upon retirement. The severance payments are calculated based on parameters such as length of employment and the employee`s remuneration, and accruals are maintained to reflect these amounts.

(1) Defined contribution plan

Most of the employment agreements with employees in Israel are in accordance with Section 14. The Company makes regular deposits to certain insurance companies and pension funds for accounts controlled by each applicable employee in order to secure the employee's rights upon retirement or employment termination. The Company is fully relieved from any severance pay liability with respect to each such employee upon contribution to such insurance company or a pension fund, as the amounts deposited are not under the control and management of the Company and the severance pay risks have been irrevocably transferred to the insurance company or the pension fund. The related severance pay obligation and the amounts deposited pursuant to such obligation are therefore not reflected in the balance sheet.

(2) Defined benefit plan

The Company's liability for severance pay to its Israel-based employees not under Section 14, and employees in countries other than Israel, is calculated pursuant to Israel's Severance Pay Law, or in other countries pursuant to local laws.

The liability in Israel is fully covered through monthly deposits the Company makes with severance pay funds and insurance companies and the remaining gap, if any, is covered by an accrual. The net liability in respect of severance pay to such employees, and to employees in other jurisdictions that fall within the same category, is classified as a net defined benefit plan.

a. Movement in net defined benefit liabilities (assets) and in their components

	Defined benefit obligation			Fair value of plan assets			Net defined benefit liability (asset)		
	30 June 2018	30 June 2017	31 December 2017	30 June 2018	30 June 2017	31 December 2017	30 June 2018	30 June 2017	31 December 2017
		(Unaudited)			(Unaudited)			(Unaudited)	
					$ in thousands				
Balance as at 1 January	**17,765**	15,311	15,311	**15,124**	13,270	13,270	**2,641**	2,041	2,041
Expense/income included in profit or loss:									
Current service cost	**615**	586	1,150	—	—	—	**615**	586	1,150
Interest cost (income)	**(1)**	286	417	**153**	147	294	**(154)**	139	123
Included in other comprehensive income:									
Actuarial gains (losses) from changes in financial assumptions	—	—	153	—	—	—	—	—	153
Other actuarial gains (losses)	—	—	(188)	—	—	(7)	—	—	(181)
Actual return less interest income	—	—	—	—	—	(131)	—	—	131
Effect of movements in exchange rates	**(781)**	1,354	1,503	**(752)**	1,318	1,460	**(29)**	36	43
Other movements									
Benefits paid	**(922)**	(764)	(581)	**(672)**	(653)	(553)	**(250)**	(111)	(28)
Contributions paid by the Company	—	—	—	**372**	363	791	**(372)**	(363)	(791)
Balance as at end of period	**16,676**	16,773	17,765	**14,225**	14,445	15,124	**2,451**	2,328	2,641

b. Actuarial assumptions and sensitivity analysis

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	30 June		31 December
	2018	2017	2017
	%	%	%
Discount rate as at 31 December	**1.34%**	1.96%	1.34%
Future salary increases			
Ages 0–29	**2%**	2%	2%
Ages 30–34	**1%**	1%	1%
Ages 35 and above	**0%**	0%	0%

Assumptions regarding future mortality are based on published statistics and mortality tables.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	One percentage point increase			One percentage point decrease		
	30 June 2018	30 June 2017	31 December 2017	30 June 2018	30 June 2017	31 December 2017
		(Unaudited) $ in thousands			(Unaudited) $ in thousands	
Future salary growth	433	296	433	(228)	(168)	(228)
Discount rate	(224)	(164)	(224)	431	292	431

B. Liability in respect of vacation pay

The Company provides for its liability in respect of employees that can accumulate their un-utilised vacation days and redeem them upon the employee leaving the Company.

Principal actuarial assumptions in respect of vacation at the reporting date:

	30 June		31 December
	2018	2017	2017
	%	%	%
Discount rate as at	**1.33%**	1.92%	1.33%
Future salary increases			
Ages 0–29	**2%**	2%	2%
Ages 30–34	**1%**	1%	1%
Ages 35 and above	**0%**	0%	0%
Utilisation rate of sick leave	**100%**	100%	100%

Employee turnover rate assumed annual linear decrease from 10% to 5% in the first 10 years of employment.

C. Pension benefits

The Company provides for its liability to pay monthly pension benefits to certain employees in Israel for the period from the date at which the employee retired from the Company and the legal date for retirement to pension according to Israel law.

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	30 June		31 December
	2018	2017	2017
	%	%	%
Discount rate as at	**0.03%**	0.63%	0.03%

19. NOTE 19—LOANS AND BORROWINGS

This note provides information regarding the contractual terms of the Company's interest bearing loans and borrowings measured at amortised cost. Further information on the Company's exposure to interest, foreign currency and liquidity risks is included in Note 24 on financial instruments.

A. Composition:

	30 June 2018	30 June 2017	31 December 2017
		(Unaudited)	
	$ in thousands	$ in thousands	$ in thousands
Short-term loans			
Short-term loans from banks	**780**	27,750	28,210
Term Loan	**—**	141,392	141,392
Mezzanine loans	**—**	41,875	41,875
	780	211,017	211,477
Contingent Value Rights (See Note 19C)	**—**	(6,035)	(6,035)
Deferred Financing Costs	**—**	(1,473)	(1,473)
	780	203,509	203,969
Long-term loans			
Long-term loan	**153,000**	—	—
Original issue discount	**(3,060)**	—	—
	149,940	—	—
Contingent Value Rights	**(10,500)**	—	—
Deferred Financing Costs	**(9,800)**	—	—
	129,640	—	—
Accrued Payable-in-Kind (PIK) interest non-current portion	**3,746**	—	—
	133,386	—	—

B. Information on material loans

Type	Interest rate per annum payable on a quarterly basis	Interest rate per annum Payable-in-kind, and accumulated until loan maturity	Maturity	30 June 2018 Face value	30 June 2018 Carrying amount	30 June 2017 Face value	30 June 2017 Carrying amount	31 December 2017 Face value	31 December 2017 Carrying amount
	%	%		$ in thousands		(Unaudited) $ in thousands		$ in thousands	
Long-term loan	Libor plus margin of 4.5%	8.5%	March 2023 (see Note 19C)	**153,000**	**129,640**	—	—	—	—
Short-term loans from banks	4.32%	—	August 2018	**780**	**780**	—	—	—	—
Short-term loans from banks	Weighted average rates of 3.2%–3.7%	—	Extended from time to time through March 2018	—	—	27,750	27,750	28,210	28,210
Term Loan	Libor plus margin of 3% to 5%	8%	Extended from time to time through March 2018	—	—	141,392	135,651	141,392	135,651
Mezzanine loans	2.5%	11.5 to 15.5%	Extended from time to time through March 2018	—	—	41,875	40,108	41,875	40,108
				153,780	**130,420**	211,017	203,509	211,477	203,969

C. Debt Refinancing

In March 2018, the Company refinanced its outstanding debt (the "**Debt Refinancing**").

The Company entered into a long-term credit agreement which provides for a $153.0 million term loan facility (the "**Senior Facility**"). The Senior facility was fully drawn at the closing of the credit agreement.

The Senior Facility matures on March 2023 (i.e. in 5 years from closing of the credit agreement). Starting from 36 months after the closing date and ending on 57 months after the closing, the Senior Facility amortises by repayment instalments of 1%–1.5% of the facility per each period of 3 months. The remaining 90% matures 60 months from the closing date.

The loan drawn under the Senior Facility was used primarily to refinance the existing indebtedness of the Company. The Company repaid its outstanding short-term loan from banks in the amount of $27.8 million. In addition the Company settled its outstanding Term and Mezzanine loans, including accrued interest.

Out of the outstanding Term and Mezzanine loans, including accrued interest and amounts due on Contingent Value Rights (see Note 19D), a certain lender, Argentem, contributed amounts owed to it, in total amount of $66.5 million in consideration for preferred shares of ECI Telecom Ltd. and special shares of ECI Telecom Group, issued to it (see Notes 13C and 16C). In addition, out of the outstanding Term and Mezzanine loans, an amount of $38.0 million was refinanced by way of exchange into respective portions of the new Senior Facility for the existing lenders.

For details on equity securities issued as part of the Debt Refinancing see Note 16. For details on liens in respect of the credit agreements see Note 25C.

D. Separable embedded derivatives

The lenders of the Term loans and Mezzanine loans were also entitled to receive additional payments upon the occurrence of a corporate transaction, as defined in the respective credit agreements (the "**Contingent Value Rights**"). As these Contingent Value Rights were issued as part of the loans that were refinanced, these contingent amounts were also settled as part of the Debt Refinancing. The actual amounts to be paid under the Contingent Value Rights, as set in the respective credit agreements, were determined based on several parameters, including, the Enterprise Value of the Company in such transaction, the consideration received and its timing.

The Company's pending obligations under the Contingent Value Rights is recorded as a derivative at fair value. The fair value is determined using valuation models and Company estimates. The estimated fair value of the Contingent Value Rights derivatives as of the date of issuance of such obligations in 2016, in the total amount of $6,035 thousand was recorded through a reduction in the carrying amount of the loan.

As part of the Debt Refinancing the Company and the respective lenders agreed the total amount due in respect of these Contingent Value Rights would be $15.5 million. These contingent amounts were settled as part of the Debt Refinancing and are no longer outstanding as at 30 June 2018.

As part of the new Senior Facility the lenders are also entitled to receive additional payments upon the occurrence of a Liquidity Event, as defined in the credit agreement (the "**New Contingent Value Rights**"). The actual amounts to be paid under the New Contingent Value Rights are determined based on several parameters, including, the Enterprise Value of the Company in such transaction, the consideration received and its timing.

The Company's pending obligations under the New Contingent Value Rights is recorded as a derivative at fair value. The fair value is determined using valuation models and Company estimates. The estimated fair value of the New Contingent Value Rights derivative as of the date of issuance of such obligation, in the total amount of $10.5 million was recorded through a reduction in the carrying amount of the Senior Facility loan. These New Contingent Value Rights were issued during March 2018 as part of the new Senior Facility and are outstanding as at 30 June 2018.

E. Contractual restrictions and financial covenants

According to the terms of the credit agreements in effect as at 30 June 2018, the Company is required to comply with certain customary affirmative, information and negative covenants, subject to certain agreed exceptions.

In this respect, the financial and operating performance of ECI Telecom Group, ECI Telecom Ltd. and their subsidiaries is monitored by financial covenants which require such entities to ensure that Interest Cover, Adjusted Leverage, EBITDA and Aggregate R&D Expenditures are not more or less than certain limits and for certain periods. The credit agreements also contains certain restriction on the Company's Capital Expenditures (as defined in the Credit Agreement).

The Company complied with the required covenants for the period ended 30 June 2018.

20. NOTE 20—LEASES

The Company has early adopted IFRS 16, Leases ("**IFRS 16**"), which sets out guidance for the accounting treatment for leases. The Company applied IFRS 16 from the period starting on 1 January 2017 using the Full Retrospective approach with a restatement of comparative information.

The Company has entered into several lease agreements in Israel and abroad, mainly for the lease of buildings and cars. The Company leases the headquarter facility in Israel for the period through 2023, with an option to renew the lease for additional two periods of five years each. For the rest of its leased buildings and offices the Company entered into lease agreements of up to three years. For cars, mainly used by the Company's employees in Israel, the Company leased the cars from one leasing company, each car for a period of up to three years.

As for the carrying amounts of the right of use assets, see Note 11.

Analysis of maturity of the Company's lease liabilities:

	30 June		31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Up to one year	**8,911**	8,239	8,314
One to five years	**13,383**	13,783	13,639
Over five years	**1,297**	5,393	3,443
	23,591	27,415	25,396

21. NOTE 21—SHARE-BASED PAYMENT ARRANGEMENTS

Current stock option plans include the ECI Telecom Ltd. 2008 Share Incentive Plan (the "2008 Plan") and ECI Telecom Group's 2014 Share Option Plan (the "**2014 Plan**").

2014 Plan

Vesting for awards made under the 2014 Plan is over a total period of 3 years, with one thirty-sixth (1/36) of the awards vesting at the end of each and every month starting from the Vesting Commencement Date. For new employees vesting shall start after six (6) months of employment (at which time 6/36 shall be vested) and the remainder shall be equally vested monthly over a thirty (30) month period.

All options will be exercisable following the lapse of their vesting period and the earlier of (i) an IPO; or (ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, none of the outstanding options issued as part of the 2014 Plan are exercisable as at the balance sheet date.

Unless otherwise determined by the Board of Directors, the term of a stock option is six (6) years. Each option confers the right to purchase one (1) ordinary share of ECI Telecom Group at an exercise price of $1 per option, subject to anti-dilution adjustment. As at 30 June 2018, the Company is authorised to grant 2,816,000 options.

As at 30 June 2018 unearned compensation subject to future recognition upon the occurrence of an IPO or a corporate transaction, or one being probable to occur, is $3,015 thousand. As at 30 June 2018 Company's management did not determine that an IPO or a Corporate Transaction is probable to occur.

A summary of the 2014 Plan as at 30 June 2018, 2017 and 31 December 2017, and changes during the periods ended on these dates is as follows:

	30 June		31 December
	2018	2017	2017
	Number of options (in thousands)	Number of options (in thousands)	Number of options (in thousands)
Balance outstanding at beginning of period	**2,115**	2,259	2,259
Changes during the period:			
Granted	**—**	—	—
Forfeited	**(30)**	(84)	(144)
Balance outstanding at end of period	**2,085**	2,175	2,115

The fair value of employee share options was measured using the Black Scholes formula. Measurement input includes the share price on the measurement date, the exercise price of the instrument, expected volatility, expected term of the instruments, expected dividends, and the risk-free interest rate (based on government debentures).

No new grants took place during the six-month periods ended on 30 June 2018 and 2017, and the year ended on 31 December 2017.

2008 Plan

The vesting period of all awards made as part of this plan is three (3) years from the Vesting Commencement Date. All options will be exercisable following the lapse of their vesting period and the earlier of (i) an IPO; or

(ii) a Corporate Transaction (such as a merger, consolidation or similar transaction, a sale or other disposition of all or substantially all of the consolidated assets of the Company, or of the outstanding securities of the Company), as defined in the plan documents. As a result, none of the outstanding options issued as part of the 2008 Plan are exercisable as at the balance sheet date.

Unless otherwise determined by the Board of Directors, the term of a stock option is six (6) years. Following a reverse split implemented by ECI Telecom Ltd. in 2013, each option confers the right to purchase 1/8 (one-eighth) of an ordinary share of ECI Telecom Ltd. at a set exercise price. As at 30 June 2018, ECI Telecom Ltd. is authorised to grant 25,600,000 options for a total of 3,200,000 ordinary shares of ECI Telecom Ltd., subject to anti-dilution adjustment.

As at 30 June 2018, unearned compensation subject to future recognition upon the occurrence of an IPO or a Corporate Transaction, or one being probable to occur, is immaterial. As at 30 June 2018 Company's management did not determine that an IPO or a Corporate Transaction is probable to occur.

A summary of the 2008 Plan as at 30 June 2018 and 2017 and 31 December 2017, and changes during the periods ended on these dates is as follows:

	30 June				31 December	
	2018		2017		2017	
	Number of options (in thousands)	Weighted Average Exercise Price ($)	Number of options (in thousands)	Weighted Average Exercise Price ($)	Number of options (in thousands)	Weighted Average Exercise Price ($)
Balance outstanding at beginning of period	**153**	**2.77**	1,346	3.00	1,346	3.00
Changes during the period:						
Granted	—	—	—	—	—	—
Forfeited or cancelled	**(80)**	**2.65**	(603)	3.26	(1,193)	3.02
Balance outstanding at end of period(*)	**73**	**2.91**	743	2.78	153	2.77

(*) As at 30 June 2018 the outstanding 73 thousand options are exercisable, subject to the terms of the plan, to approximately 9 thousand ECI Telecom Ltd. common shares, constituting approximately 0.01% of the common shares of ECI Telecom Ltd. on a fully diluted basis. Each 8 options are exercisable to 1 common share of ECI Telecom Ltd., for a total exercise price per 1 common share of approximately $23.3.

22. NOTE 22—PROVISIONS

	Warranties	Reorganisation	Legal claims	Total
		$ in thousands		
Balance as at 1 January 2018	**3,826**	**2,334**	**342**	**6,502**
Provisions made during the period	**1,272**	**1,380**	**59**	**2,711**
Provisions used during the period	**(803)**	**(2,547)**	**(42)**	**(3,392)**
Balance as at 30 June 2018	**4,295**	**1,167**	**359**	**5,821**
Presented in current liabilities	**4,295**	**1,167**	**359**	**5,821**
Presented in non-current liabilities	—	—	—	—
	4,295	**1,167**	**359**	**5,821**

For information on provisions for employee benefits, see Note 18 regarding employee benefits

A. Warranties

The provision for warranties relates mainly to products sold during the periods ended 30 June 2018 and 2017 and 31 December 2017. The provision is based on historical warranty data estimates associated with similar products and services. The Company expects to incur most of the liability during 2018.

B. Reorganisation

During January 2018, the Company went through a workforce reduction plan. The Company recorded an amount of $1.4 million as part of this plan as reorganisation expenses in the consolidated statements of operations. In 2016, the Company provided an amount of $3.7 million in connection with a settlement reached

by the Company with its former primary IT provider. The unpaid balance of this provision as at 30 June 2018 was $1.2 million.

C. Legal claims

For information on legal claims see Note 25 regarding contingent liabilities.

23. NOTE 23—OTHER PAYABLES

	30 June		31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Employee benefits (see Note 18 on employees benefits)	**16,528**	15,471	16,295
Accrued expenses	**22,644**	17,877	21,665
Accrued interest in respect of loans	**9,241**	40,877	53,129
Tax authorities	**7,966**	8,934	7,950
Commissions payable	**3,719**	4,020	4,040
Advances from customers	**4,823**	4,596	3,040
Fair value of derivatives	—	6,080	6,080
Amounts collected on behalf of others to be transferred	—	22,779	28,837
Other payables	**870**	948	796
	65,791	121,582	141,832

See Note 26 on related parties for information on other payables due to related parties.

The Company's exposure to linkage, currency and liquidity risks related to other payables is disclosed in Note 24 on financial instruments.

24. NOTE 24—FINANCIAL INSTRUMENTS

A. Overview

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

- Credit risk
- Liquidity risk
- Market risk (mainly foreign currency risk)

This note presents quantitative and qualitative information about the Company's exposure to each of the above risks, and how the risks are measured and managed.

B. Risk management framework

Management has overall responsibility for the Company's financial risk management. The purpose of the Company's financial risk management is to constantly identify, define and monitor those risks, and to minimize as far as possible any likely effects.

The Company's policy is to partially hedge, subject to the availability of sufficient credit lines, the exposure arising from fluctuations in foreign exchange rates.

C. Credit risk

Management monitors the Company's exposure to credit risk on a regular basis.

Cash, deposits and restricted cash are deposited in highly-rated financial institutions, and the Company also maintains a policy to avoid concentration of risk that may arise from making deposits with one financial institution.

The Company's exposure to credit risk in respect of trade and other receivables is influenced mainly by the individual characteristics of each customer. Management estimates that the exposure in respect of credit to customers is limited due to the fact that most customers are large companies with high credit rates, and also the large number of customers and their geographical spread. In addition, trade receivables are for a major part secured by trade risk insurance policies or by letters of credit issued by highly rated financial institutions.

Management regularly monitors customer debts, and the financial statements include provisions for doubtful debts, which properly reflect, in management's estimation, the loss inherent in specific customers' debts the collection of which is doubtful.

See Note 4 for revenues attributable to sales transactions with major customers.

D. Liquidity risk

Cash flow forecasts are determined on both an individual company basis and a consolidated basis. The Company examines current forecasts of its liquidity requirements so as to make certain that there is sufficient cash for its operating needs, and it is careful at all times to have enough unused credit facilities so that the Company does not exceed its credit limits and is in compliance with its financial covenants. These forecasts take into consideration matters such as compliance with required financial covenants, compliance with certain liquidity ratios, and compliance with external requirements such as laws or regulation.

See Note 19 for information about the terms of the loans received by the Company.

The following are the contractual maturities of financial liabilities at undiscounted amounts and based on the future rates forecasted at the reporting date, including estimated interest payments.

	30 June 2018					
	Carrying Amount	Contractual cash flows	6 months or less	6–12 months	1–2 years	3–6 years
	$ in thousands					
Short-term Loans	780	780	780	—	—	—
Trade payables	74,513	74,513	74,513	—	—	—
Other payables	58,134	58,134	58,134	—	—	—
Finance lease liability (including current maturity)	23,591	30,031	4,508	3,709	11,533	10,282
Royalties payable to Israel Innovation Authority (including current maturity)	29,986	50,224	3,537	4,161	18,647	23,879
Long-term loans (including current maturity)	136,220	300,071	8,443	5,940	29,747	255,941
Other long-term liabilities	128	128	—	—	128	—
	323,352	513,881	149,915	13,810	60,055	290,102

E. Market risk

(a) Currency risk

The Company is exposed to currency risk on sales, purchases and operating expenditure that are denominated in a currency other than the functional currency of the Company. The principal currencies in which these transactions are denominated is New Israeli Shekel ("**ILS**") and Euro.

The Company's exposure to foreign currency risk was as follows:

	30 June 2018					
	Foreign currency					
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	61,884	68,908	13,613	15,945	38,446	198,796
Non-current assets	315,483	6,777	—	—	814	323,074
Current liabilities	(714)	(112,004)	(15,435)	(10,316)	(24,962)	(163,431)
Non-current Liabilities	—	(166,923)	(18,330)	(2)	(2,287)	(187,542)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	376,653	(203,242)	(20,152)	5,627	12,011	170,897

	30 June 2017					
	Foreign currency					
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	57,481	51,342	14,962	14,436	34,014	172,235
Non-current assets	314,371	1,365	—	—	—	315,736
Current liabilities	(6,442)	(356,181)	(16,885)	(4,498)	(18,244)	(402,250)
Non-current Liabilities	—	(28,943)	(22,205)	(1,725)	(1,206)	(54,079)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	365,410	(332,417)	(24,128)	8,213	14,564	31,642

	31 December 2017					
	Foreign currency					
	Non-monetary	Dollar	ILS	Euro	Other	Total
	$ in thousands					
Financial assets and financial liabilities:						
Current assets	62,678	92,282	13,953	8,812	37,962	215,687
Non-current assets	311,881	806	—	—	1,150	313,837
Current liabilities	(7,766)	(405,997)	(18,630)	(1,582)	(21,947)	(455,922)
Non-current Liabilities	—	(26,063)	(20,672)	(2,823)	—	(49,558)
Total exposure in statement of financial position in respect of financial assets and financial liabilities	366,793	(338,972)	(25,349)	4,407	17,165	24,044

(b) Sensitivity analysis

A change as at 30 June 2018 in the exchange rates of the ILS and Euro against the dollar at a rate of 5%, would have affected the measurement of financial assets and liabilities denominated in a foreign currency and would have increased or decreased profit or loss and equity by the amounts (after tax) of $1.2 million, ($1.0 million and $2.6 million as at 30 June 2017 and 31 December 2017, respectively) as a result of a change in the ILS, and $0.4 million ($0.3 million and $0.2 million as at 30 June 2017 and 31 December 2017, respectively) as a result of a change in the Euro. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for 30 June 2017 and 31 December 2017.

F. Fair value

The carrying amounts of certain financial assets and liabilities, including cash and cash equivalents, restricted cash, trade receivables, other receivables, loans and borrowings, trade payables and other payables are the same or proximate to their fair value.

The table below presents an analysis of financial instruments measured at fair value on the temporal basis using valuation methodology in accordance with the fair value hierarchy levels (for a definition of the various hierarchy levels, see Note 3 regarding the basis of preparation of the financial statements).

	30 June 2018			
	$ in thousands			
	Level 1	Level 2	Level 3	Level 4
Financial liabilities:				
Separable Embedded Derivatives	—	—	**10,500**	**10,500**
	—	—	**10,500**	**10,500**

	30 June 2017			
	$ in thousands			
	Level 1	Level 2	Level 3	Level 4
Financial liabilities:				
Separable Embedded Derivatives	—	—	6,080	6,080
	—	—	6,080	6,080

	31 December 2017			
	$ in thousands			
	Level 1	Level 2	Level 3	Level 4
Financial liabilities:				
Separable Embedded Derivatives	—	—	6,080	6,080
	—	—	6,080	6,080

The table hereunder presents a reconciliation from the opening balance to the closing balance of separable embedded derivatives carried at fair value level 3 of the fair value hierarchy:

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	$ in thousands	$ in thousands	$ in thousands
Balance at beginning of the period	**6,080**	6,080	6,080
Additions	**10,500**	—	—
Deletions	**(15,487)**	—	—
Change in the fair value	**9,407**	—	—
Balance at end of the period	**10,500**	6,080	6,080

For the purpose of measurement of the fair value of the separable embedded derivative outstanding as at 30 June 2018, which is the New Contingent Value Rights issued as part of the Debt Refinancing that took place in March 2018 (see Note 19), the Company used the Monte Carlo Simulation model. Measurement inputs that would have significantly changed the fair value are as follows:

(1) The estimated Company's equity value that triggers a Liquidity Event, as defined in the agreement (see Note 19). An increase, or decrease, of 10% in this input would result in an increase or decrease in the fair value of approximately $0.9 million, or $1.3 million, respectively; and

(2) The probability for a Liquidity Event to take place in the short-term period. An increase, or decrease, of 5% (absolute) in this input would result in an increase or decrease in the fair value of approximately $1.0 million, or $1.0 million, respectively.

G. Financial guarantees

The Company maintains certain guarantees mainly through banks and with insurance companies to support its performance obligations under customer contracts and other contracts that can be called in case of a material breach of contracts. As at 30 June 2018, these guarantees totalled approximately $37.6 million ($38.5 million and $38.7 million as at 30 June 2017 and 31 December 2017, respectively).

H. Transfers of financial assets

The Company maintained customer debt factoring agreements with a number of financial institutions, with the Parent Company, and with the Lending Funds (the "**Banks**"). Under the terms of the agreements, the Company may transfer receivables to the Banks, on a non-recourse basis, provided that the banks approve the receivables in advance. In March 2018, in connection with the Debt Refinancing this agreement with the Parent Company was terminated. See also Note 16C.

In respect of a majority of its trade receivables, the Company maintains credit insurance policies from major insurance entities or obtains letters of credit from the customers, covering a major part of the credit risk. In some cases, the Company maintains some recourse obligations, limited to events of commercial disputes, such as product defects, which are not covered under the credit insurance policy, and are unrelated to the credit worthiness of the customer. The Company does not expect any recourse to take place in the foreseeable future due to commercial disputes.

The Company accounts for the factoring of its financial assets as a sale of the assets and records the factoring fees, when incurred, in profit and loss as finance expenses. As at 30 June 2018, 2017 and 31 December 2017, the outstanding trade receivables derecognised from the consolidated balance sheet in connection with factoring agreements amounted to $53,115 thousand, $78,861 thousand and $73,779 thousand, respectively.

25. NOTE 25—CONTINGENT LIABILITIES AND ASSETS PLEDGED

A. Legal claims

During the normal course of business, legal claims were filed against group companies or there are pending claims against the Company (in this section: "**Legal Claims**"). In the opinion of Company management, based, among other things, on legal opinions as to the likelihood of success of the claims, the financial statements include adequate provisions (see Note 22), where provisions are required to cover the exposure resulting from such claims.

Claims of employees and former employees of group's companies

Several lawsuits and claims have been submitted against the Company in Israel and in other jurisdictions in respect of labour and related matters. Such matters include the calculation of benefits, right to receive additional benefits for termination, determination of employee status, right to terminate, and others. A provisions in the amount of $359 thousand was included as at 30 June 2018 (see Note 22). Management of the Company believes, based on the opinion of its legal advisors that the financial statements include adequate provisions in respect of such claims.

Claims by enterprises and companies

Several claims have been submitted against the Company and against consolidated subsidiaries, in respect of activities conducted by the Company, in the ordinary course of business, alleging that the Company, inter alia, used patents owned by others. No provision in respect of such claims was included as at 30 June 2018. The Company's management, based mainly on opinions of its legal advisors, believes that the effect, if any, of the results of such claims on the financial position of the Company and the results of its operations will be immaterial.

During 2018 the Company received a letter from Sisvel International SA ("**Sisvel**") advising the Company's wholly owned subsidiary in Germany that it needs to seek a licence from Sisvel for products which implement DSL technologies to cover certain patents that are owned by Sisvel. A similar letter was sent to ECI Telecom Ltd. for sales in the United States but ECI Telecom Ltd. had no such sales in this territory. If the Company determines that no licence is necessary, or that it does not desire to seek a licence, this matter could result in litigation between ECI Telecom Ltd. and Sisvel. Because notification was recently received it is too early to assess the merits of the letter or whether a licence is necessary. The Company does not currently sell products containing DSL technology.

In addition, the Company is subject to legal proceedings, claims, and litigation arising in the ordinary course of business. While the outcome of these matters is currently not determinable, the Company does not expect that the ultimate costs to resolve these matters will have a material adverse effect on its consolidated financial position, results of operations, or cash flows. Liabilities related to legal proceedings are recorded when it is likely that a liability has been incurred and the associated amount can be reasonably estimated. As additional information becomes available, the potential liability related to these matters will be reassessed and the estimates revised, if necessary. In each of these matters the Company continuously evaluates the merits of the respective claims and defends itself vigorously or seeks to arrive at alternative resolutions in its best interest, as it deems appropriate.

B. Purchase commitments

As at 30 June 2018, the Company had commitments in the amount of $73.8 million covering, primarily, the purchase of materials)$73.9 million as at 31 December 2017).

C. Assets pledged

(1) The Company pledged certain of its assets, including those of its subsidiaries, to the lending parties in several credit agreements as at 30 June 2018.

    In Israel, that included the creation of (1) fixed charges on assets like machinery, equipment, intellectual property, shares that the Company and its subsidiary hold in its subsidiaries, material insurance policies

and bank accounts and (2) a floating charge on all assets and properties owned from time to time by the Company and its subsidiaries, and

Outside Israel, several Company subsidiaries have pledged certain assets, in favour of the lending parties in several security agreements as at 30 June 2018 included the creation of (1) fixed charges on assets such as shares that they hold in subsidiaries, material insurance policies and bank accounts and of (2) a floating charge on all assets and properties owned from time to time by these subsidiaries

As at 30 June 2018, fixed charges are duly registered with the relevant authorities with respect to certain machinery, equipment, the intellectual property, the shares and bank accounts of several of the Company's subsidiaries and certain insurance policies, and a floating charge has been registered on all assets of the Company and of certain of its subsidiaries.

(2) Pursuant to an arrangement between a Company subsidiary and the IIA entered into in May 2012 and amended in October 2013, a second ranking floating charge has been registered on all assets of the Company in favour of the Israeli Ministry of Economy ("**IME**") to secure the due and punctual payment by ECI Telecom Ltd. to IME of specific amounts owed by ECI Telecom Ltd. to IME as delineated in the arrangement between the parties and secured according to the agreement by this pledge. Pursuant to the same arrangement, a third ranking floating charge has been registered on all assets of the Company in favour of an entity controlled by the indirect shareholders of the Company, to secure the aforesaid amounts as delineated in the arrangement between the parties.

As at 30 June 2018, the Company's subsidiary paid to the IIA all due amounts under the above agreement and its amendments, and is entitled to require the IIA to remove the aforementioned charges. Subsequent to the balance sheet date the above mentioned pledge and the third ranking floating charge on all assets of the Company in favour of an entity controlled by the indirect shareholders of the Company were removed

(3) Short-term deposits in an amount of $9.8 million (31 December 2017—$3.0 million) were pledged in favour of banks and an insurance company ("**Financial Institutions**") to secure their potential obligations under certain performance bonds issued by the Financial Institutions. The performance bonds, in a total amount of $10.4 million were issued to Company customers as a security for the Company's contractual obligations under tenders and contracts. Additional short-term bank deposits in the aggregated amount of $3.9 million were pledged in favour of an Israeli bank to secure financial bonds in an amount of $8.5 million mainly for the Company's obligation under the lease agreement for its headquarter facility in Israel. In addition pledged short-term bank deposits in an aggregated amount of $2.7 million were pledged in favour of Chinese banks to secure financial bonds in an amount of $18.1 million for the Company's obligation to the Company's main subcontractor in China

(4) As at 30 June 2018, two mortgages, on certain real estate assets of the Company which are located in the cities of Petach Tikva (the same plot as the Company's main offices) and Givat Shmuel (adjacent to the Company's main offices) in Israel, are registered in favour of Flextronics (Israel) Ltd. ("**Flextronics**"). Both mortgages were registered in order to secure certain indebtedness owed from time to time by the Company to Flextronics pursuant to a manufacturing agreement entered into between the parties.

(5) The Company registers pledges in immaterial amounts from time to time on certain equipment items in the ordinary course of business.

D. Royalties payable to the IIA

The Company is committed to pay royalties to the IIA on proceeds from sale of products which the Government of Israel supported by way of research and development grants. The royalties are calculated mainly at the rates of 1.3% to 3.0% of the aggregated proceeds from the sale of such products developed at the Company's R&D centre in Omer, or 3.5% to 5.0% of the aggregated proceeds from sale of such products developed at the Company's R&D centre in its headquarters facility in Israel, up to an amount not exceeding 100% of such grants plus interest at LIBOR rate (for new cases approved starting from 2017, interest at the higher of LIBOR rate plus a margin of 1.5%, and 2.75%). Where manufacturing is performed outside Israel, the respective royalty rates are increased by an additional 1%.

The Company records the royalties payable to the IIA as a liability according to their fair value on the date of their receipt, unless on that date it is reasonably certain that the amount received will not be refunded. The amount of the liability is re-examined each period, and any changes in the present value of the cash flows discounted at the original interest rate of the grant are recognised in profit or loss, as part of research and development expenses.

The liability for royalties payable to the IIA is as follows:

	30 June		31 December
	2018	2017	2017
	$ in thousands	(Unaudited) $ in thousands	$ in thousands
Current liability	**7,383**	2,847	8,542
Non-current liability	**22,603**	26,790	24,064
	29,986	29,637	32,606

26. NOTE 26—RELATED PARTIES

A. Parent company and subsidiaries

The Company's parent company is ECI Holding (Hungary) Kft., a Hungarian company, which as at 30 June 2018 held 76% of the ordinary shares of the Company. See Note 13 on subsidiaries.

B. Compensation and benefits to key management personnel

Compensation and benefits to key management personnel comprise mainly of salaries, bonuses and incentives, as well as contributions to post-employment benefits such as contributions to a defined benefit plan (or to a defined contribution plan for those key management personnel employed in Israel pursuant to Section 14), on their behalf.

Executive officers also participate in the Company's share option programmes. For further information see Note 21 regarding share-based payments.

Compensation and benefits to key management personnel:

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	Amount $ in thousands	Amount (Unaudited) $ in thousands	Amount $ in thousands
Base salary, bonuses and incentives	**2,455**	1,552	3,203
Short-term employee benefits	**154**	106	168
Post-employment and benefits	**207**	151	309
Other compensation and benefits	**290**	134	255
	3,106	1,943	3,935

C. Transactions with related parties

PART 2 (1) Balances due from or to related parties

	30 June		31 December
	2018	2017	2017
	Amount $ in thousands	Amount (Unaudited) $ in thousands	Amount $ in thousands
Trade receivables	—	—	7,500
Other receivables	**605**	528	630
Trade payables	**57**	322	497
Other payables	**2,500**	32,624	40,022

(2) Transactions with related parties

	For the six months ended 30 June		For the year ended 31 December
	2018	2017	2017
	Amount $ in thousands	Amount (Unaudited) $ in thousands	Amount $ in thousands
Revenues	—	—	7,500
Expenses	**1,787**	2,816	5,609

D. Other engagements between the Company and related parties

(1) The Company pays fees to an entity controlled by the indirect shareholders of the Company in respect of letters of credit issued by this entity to an Israeli bank to support credit lines issued by the bank to the Company.

This engagement was terminated in March 2018. In addition, in March 2018 the aforesaid related entity waived its right to receive from ECI Telecom Ltd. accrued and unpaid fees in total amount of $11.8 million. The waived fees were recorded as a capital contribution made to the Company's share premium by its shareholders.

(2) In March 2018 the Company entered into an agreement to receive management services from an entity controlled by the indirect shareholders of the Company, for a period of five years, for a monthly payment of $25 thousand.

(3) Sales of certain of the Company's receivables (see Note 24H). This engagement was terminated in March 2018.

Part 10
ADDITIONAL INFORMATION

1. INCORPORATION AND SHARE CAPITAL

1.1 Incorporation

The Company was organised and registered in Israel on 25 June 2007 as a limited liability company under the Israeli Companies Law with the name Epsilon 1 Ltd. and with the registered number 51-399572-0. On 2 September 2018, the Company changed its name to ECI Telecom Group Ltd.

The Company's registered office is at 30 Hasivim Street, Petach-Tikva, 4959388, Israel and its principal place of business is at 30 Hasivim Street, Petach-Tikva, 4959388, Israel. The Company's telephone number is +972 (3) 926 6555.

The principal laws and legislation under which the Company operates and the Shares have been created are the Israeli Companies Law and regulations made thereunder.

1.2 Share capital

On incorporation, the authorised share capital of the Company was NIS 2,000,000, comprised of 200,000,000 Shares of NIS 0.01 par value each, of which one Share was issued and outstanding.

Since 1 January 2015, the following changes have occurred to the Company's authorised and issued share capital:

(a) On 29 March 2018, by resolution of the Board and the sole shareholder of the Company, 10,000,000 authorised Shares were converted and reclassified into 10,000,000 Preferred A Shares of NIS 0.01 par value each, and 10 authorised Shares were converted and reclassified into 10 Special Shares of NIS 0.01 par value each.

(b) On 29 March 2018, in connection with the refinancing of the Company and by resolutions of the Board and the sole shareholder of the Company, the following shares were issued and sold:

  (i) 9,825,023 Preferred A Shares were issued and sold to the Major Shareholder; and

  (ii) 10 Special Shares were issued and sold to Argentem Creek.

(c) On 6 June 2018, in connection with the refinancing of the Company and by resolutions of the Board and the sole shareholder of the Company, the following shares were issued and sold:

  (i) 174,977 Preferred A Shares were issued and sold to funds affiliated with Viola Credit; and

  (ii) 8,467,531 Shares were issued and sold to funds affiliated with Viola Credit.

As at the date of this Registration Document, the issued and outstanding share capital of the Company is comprised of 42,337,655 Shares of NIS 0.01 each (all of which are fully paid), 10,000,000 Preferred A Shares of NIS 0.01 each (all of which are fully paid) and 10 Special Shares of NIS 0.01 each (all of which are fully paid). The authorised share capital of the Company is NIS 2,000,000, comprised of 189,999,990 Shares of NIS 0.01 each, 10,000,000 Preferred A Shares of NIS 0.01 each and 10 Special Shares of NIS 0.01 each.

As at the date of this Registration Document, the Company has outstanding Shares and Preferred A Shares (each held by the Major Shareholder and Viola Credit) and Special Shares (held by Argentem Creek). Each Share, Preferred A Share and Special Share has one vote for all purposes. The Shares and Preferred A Shares vote together as a single class, unless otherwise required by applicable law. The holders of Special Shares do not have the right to vote or attend a general meeting of shareholders of the Company, other than general meetings convened to consider or approve certain actions and transactions of the Group with respect to which the holders of the Special Shares have a veto right. In addition, funds affiliated with Viola Credit have veto rights over certain actions and transactions of the Group. The Company expects the Preferred A Shares and Special Shares to be converted into Shares in due course, such that the Shareholders of the Company would not have different voting rights attached to their shares in the Company.

2. ARTICLES OF ASSOCIATION

The Articles of the Company at the date of this Registration Document are customary for a private limited company organised and registered in Israel.

The Company intends to amend or replace its Articles with provisions to the following effect:

2.1 Objects

Section 18 of the Israeli Companies Law provides, among other things, that the objects of a company are to be set out in its articles of association. The Articles would provide that the Company's objectives are to carry on any legal business and perform any legal acts that are approved by the Board and which are not prohibited by law.

2.2 Share rights

Subject to the Israeli Companies Law and to the Articles, the power of the Company to issue and allot shares would be exercised by the Board at such times and on such terms and conditions as the Board may determine. Subject to the Articles, any share would be issued with such rights or restrictions as the Company may from time to time determine by a simple majority of the Shareholders. Subject to the Israeli Companies Law and to the Articles, the Company may issue redeemable shares and the Board would be able to determine the terms, conditions and manner of redemption of such shares, provided that it does so before the shares were allotted. The Board would not be able to allot, issue, offer, grant options over, or otherwise dispose of equity securities other than: (i) in accordance with the Articles; (ii) as permitted by an ordinary resolution; or (iii) shares which were being issued in accordance with the terms of an equity security that had previously been validly issued or granted by the Company. The Board would, however, be free to allot bonus shares and shares or rights to subscribe for, or convert securities into, shares in connection with an employee share scheme.

2.3 Voting rights

Shareholders would have one vote for each Share held on all matters submitted to a vote of Shareholders at a Shareholder meeting. Shareholders would be able to vote at Shareholder meetings either in person or by proxy. The Israeli Companies Law does not allow public companies to adopt shareholder resolutions by means of written consent in lieu of a shareholder meeting.

Subject to any rights or restrictions attached to any shares, on a show of hands every member who is present in person would have one vote and on a poll, every member present in person or by proxy would have one vote for every share of which he is the holder.

No member would be entitled to vote at any general meeting in respect of a share unless all moneys presently payable by him in respect of that share have been paid.

2.4 Dividends and other distributions

Under the Israeli Companies Law, dividend distributions are determined by the board of directors and do not require the approval of the shareholders of a company unless the company's articles of association provide otherwise. The Articles would not require shareholder approval of a dividend distribution and provide that dividend distributions may be determined by the Board.

Pursuant to the Israeli Companies Law, the Company would be able to declare and pay dividends only if, upon the determination of the Board, there were no reasonable concern that the distribution would prevent the Company from being able to meet the terms of its existing and foreseeable obligations as they become due. Under the Israeli Companies Law, the distribution amount is further limited to the greater of retained earnings or earnings generated over the two most recent years legally available for distribution according to the public company's last reviewed or audited financial statements (less the amount of previously distributed dividends, if not reduced from the earnings), provided that the date of the financial statements is not more than six months prior to the date of distribution. In the event that the Company did not have retained earnings or earnings generated over the two most recent years legally available for distribution, the Company would be required to seek the approval of the court in order to distribute a dividend. The court may approve the request if it is convinced that there is no reasonable concern that the payment of a dividend will prevent the Company from satisfying its existing and foreseeable obligations as they become due.

The Articles will provide that upon any liquidation, dissolution or winding-up, subject to applicable law and the rights of holders of shares with special rights upon winding up (if any), after satisfaction of liabilities to creditors, the Company's remaining assets shall be distributed pro rata among the Shareholders in proportion to the nominal value of their shareholdings.

2.5 Pre-emption rights

Subject to the provisions of the Israeli Companies Law, the Articles and any resolution of the Company conferring authority on the Directors to allot shares and without prejudice to any rights attached to existing shares, all unissued shares would be at the disposal of the Board. Although the Israeli Companies Law does not provide any statutory pre-emption rights in public companies, the Articles would provide that equity securities (as defined in the Articles) that the Company issues wholly for cash must first be offered to existing Shareholders in proportion to their respective holdings of Shares (i.e., the Articles contain provisions equivalent to statutory pre-emption rights under the Act), except that such pre-emption rights shall not apply where they are dis-applied by way of a resolution passed by a 75% supermajority of the holders of the shares of the class who (being entitled to do so) vote in person or by proxy at a separate general meeting of Shareholders, or where the shares are bonus shares or are issued in connection with an employee share scheme (as defined in the Articles).

2.6 Depositary Interests

The Directors would be authorised to make such arrangements as they may think fit in order to enable the Company's shares to be represented by and exchanged for depositary interests, which are eligible to be held and transferred in uncertificated form in a computer-based system whether located in Israel or in any other country.

2.7 Variation of rights

Under the Articles and in accordance with the Israeli Companies Law, the rights attached to any class of the Company's shares, such as voting, liquidation and dividend rights, would be able to be modified or cancelled by adoption of a resolution by the holders of a majority of all shares as one class, without any required separate resolution of any class of shares, or otherwise in accordance with the rights attached to such class of shares, as set forth in the Articles.

2.8 Lien and forfeiture

The Company would have a first and paramount lien on every share (not being a fully paid share) for all moneys payable to the Company (whether presently or not) in respect of that share. The Company would be able to sell, in such manner as the Board determines, any share on which the Company has a lien if a sum in respect of which the lien exists is presently payable and is not paid within 14 days after notice has been sent to the holder of the share demanding payment and stating that if the notice is not complied with the share may be sold.

The Board would be able to from time to time, make calls on the shareholders in respect of any moneys unpaid on their shares which are not, pursuant to the terms of issuance of such shares or otherwise, payable at a fixed time. Notice of any call for payment by a shareholder would be given in writing to such shareholder not less than 14 days prior to the time of payment fixed in such notice, and would specify the time and place of payment, and the person to whom such payment is to be made. If pursuant to the terms of issuance of a share or otherwise, an amount is made payable at a fixed time (whether on account of such nominal value of such share or by way of premium), such amount would be payable at such time as if it were payable by virtue of a call made by the Board, and the provisions of the Articles with regard to calls (and the non-payment thereof) would be applicable to such amount or such instalment (and the non-payment thereto). Any amount called for payment which is not paid when due would bear interest from the date fixed for payment until actual payment thereof, at such rate and payable at such time(s) as the Board may prescribe. If a call or any instalment of a call remains unpaid in whole or in part after it has become due and payable, the Board may give the person from whom it is due not less than 14 days' notice requiring payment of the amount unpaid together with any interest which may have accrued and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall name the place where payment is to be made and shall state that if the notice is not complied with the shares in respect of which the call was made will be liable to be forfeited.

2.9 Transfer of shares

A member would be able to transfer all or any of its shares in any manner that is permitted by any applicable statutory provision and is from time to time approved by the Board. The Company would maintain a record of uncertificated shares in accordance with the relevant statutory provisions.

A member would be able to transfer all or any of its certificated shares by an instrument of transfer in any customary form, or in such other form as the Board may approve. The instrument of transfer would need to be

signed by or on behalf of each of the transferor and the transferee. The Board may, in its absolute discretion, refuse to register any instrument of transfer of any certificated share which is not fully paid up but, in the case of a class of shares which has been admitted to the Official List of the FCA, not so as to prevent dealings in those shares from taking place on an open and proper basis. The Board may also refuse to register any instrument of transfer of a certificated share unless the instrument is left at the registered office, or such other place as the Board may decide, for registration, accompanied by the certificate for the shares to be transferred and such other evidence (if any) as the Board may reasonably require to prove title of the intending transferor or its right to transfer the shares If the Board refuses to register a transfer of a certificated share it shall, as soon as practicable and in any event within two months after the date on which the instrument was lodged, give to the transferee notice of the refusal together with its reasons for refusal. Until the transferee has been registered in the Company's Register of Shareholders in respect of the shares so transferred, the Company may continue to regard the transferor as the owner thereof.

2.10 Shareholder notification requirements and suspension of rights

The Company expects to include in its Articles, the provisions of DTR 5 (as amended from time to time) requiring the notification of voting rights. The Company expects that its Articles would also apply DTR 5 as if it were an "issuer" for the purposes of that rule as opposed to a "non-UK issuer". Accordingly, Shareholders would be required to notify the Company of their voting rights held as Shareholder, or held or deemed to be held through a direct or indirect holding of financial instruments (in each case within the meaning of DTR 5), on the basis of the percentage thresholds applicable to the notification of voting rights in a "issuer" for the purposes of DTR 5.

Under the Articles, if any Shareholder failed to comply with any request by the Company to notify it of its shareholding in the Company, the Company would be able to (at the absolute discretion of the Directors), by notice to such Shareholder, exercise its power under the Articles to suspend such Shareholder's rights as to: voting, receipt of dividends and ability to transfer any of his or her shareholding. Such suspension would have effect from the date on which the default notice is delivered to the Shareholder until a date that is not more than seven days after the Board determines that the Shareholder has cured the non-compliance. During the period of such suspension, any dividend or other amount payable in respect of the Shares would be retained by the Company without any obligation to pay interest thereon.

2.11 Alteration of share capital

Subject to the Israeli Companies Law and to the Articles, the Company would be able to, by ordinary resolution, consolidate or sub-divide its share capital.

2.12 Purchase of own shares

Subject to the Israeli Companies Law and to the Articles, and without prejudice to any relevant special rights attached to any class of shares, the Company would be able to purchase any of its own shares of any class in any way and at any price (whether at par or above or below par). Under Israeli law, a repurchase of shares by the issuing company, including the direct or indirect financing of a repurchase, as well as an undertaking by the issuing company to repurchase shares, constitutes a "distribution" under the Israeli Companies Law. A distribution must meet the following two tests set forth in the Israeli Companies Law: (i) there must be no reasonable concern that the distribution will prevent the company from being able to meet the terms of its existing and foreseeable obligations as they become due, referred to as the solvency test; and (ii) the distribution must not exceed the greater of retained earnings or earnings generated over the two most recent years legally available for distribution according to the company's then last reviewed or audited financial statements (less the amount of previously distributed dividends, if not reduced from the earnings), provided that the date of the financial statements is not more than six months prior to the date of distribution, referred to as the profit test. A company that does not meet the profit test may seek the approval of the court for a distribution. The court may approve the request if it is convinced that the company meets the solvency test.

2.13 General meetings

Pursuant to the Israeli Companies Law, a public company must convene an annual general meeting of shareholders at least once every calendar year and within 15 months of the last annual general meeting. Pursuant to the Israeli Companies Law, the board of directors of a public company may, at its discretion, convene additional meetings as "special general meetings". In addition, the board of directors of a public company must convene a special general meeting upon the written request of (i) any two directors; (ii) 25% of the serving directors; (iii) one or more shareholders holding, in the aggregate, at least 5% of its outstanding

share capital and at least 1% of the voting rights in the company; or (iv) one or more shareholders holding, in the aggregate, at least 5% of the voting rights in the company.

The quorum required for a general meeting would be at least two or more Shareholders present in person or by proxy, who hold or represent in the aggregate at least 25% of the voting power of the Company (or if a higher percentage is required by law, such higher percentage), within half an hour of the time fixed for the commencement of the meeting. A general meeting which is adjourned for lack of a quorum generally would be adjourned either to the same day, time and place in the following week or to such day, time and place as specified in the notice of the meeting or to such day, time and place as the board of directors shall determine. At the reconvened general meeting, any two Shareholders (not in default) present in person or by proxy would constitute a lawful quorum unless the meeting of shareholders was convened at the demand of shareholders, in which case, the quorum would be the presence of one or more shareholders holding at least 5% of the issued share capital and at least one percent of the voting rights in the Company, or one or more shareholders with at least 5% of the voting rights in the Company.

3. DIRECTORS

3.1 Appointment of Directors

The Company expects that the Articles would require each Director, other than an external director, to be appointed by a simple majority vote of Shareholders participating and voting at the annual general meeting of Shareholders. In addition, pursuant to the Articles, the Board would be able to fill any or all vacancies (other than external directors) and any Director so appointed by the Board would serve for a term of office equal to the remaining period of the term of office of the directors(s) whose office(s) have been vacated.

3.2 Appointment of external directors

Under the Israeli Companies Law, public companies organised under the laws of the State of Israel must appoint at least two external directors who meet the qualification requirements in the Israeli Companies Law. This would apply to the Company were it to become a public company.

Term

The initial term of an external director is three years. Thereafter, an external director may be re-elected by shareholders to serve in that capacity for up to two additional three-year terms, provided that either:

- his or her service for each such additional term is recommended by one or more shareholders holding at least 1% of the company's voting rights and is approved at a shareholders meeting by a disinterested majority (excluding a personal interest that did not result from the shareholder's relationship with the controlling shareholder), where the total number of shares held by non-controlling, disinterested Shareholders voting for such re-election exceeds 2% of the aggregate voting rights in the company, and provided further that the external director is not an affiliated or competing shareholder, as defined in the Israeli Companies Law, or a relative of such a Shareholder at the time of the appointment, and is not affiliated with such a Shareholder at the time of appointment or within the two years preceding the date of appointment;
- his or her service for each such additional term is recommended by the Board and is approved at a Shareholders meeting by the same majority required for the initial election of an external director (as described below); or
- such external director nominates himself or herself for each such additional term and his or her election is approved at a Shareholders meeting by the same disinterested majority as required for the election of an external director nominated by a 1% or more Shareholder (as described above).

Qualification Criteria

The Israeli Companies Law provides that a person is not qualified to serve as an external director if: (i) the person is a relative of a Controlling Shareholder of the company; or (ii) if that person or his or her relative, partner, employer, another person to whom he or she was directly or indirectly subordinate, or any entity under the person's control, has or had, during the two years preceding the date of appointment as an external director: (a) any affiliation with the company, with any person or entity controlling the company or a relative of such person at the time of appointment, or with any entity controlled by or under common control with the company at the time of appointment or during the two years preceding the appointment; or (b) in the case of a company with no Controlling Shareholder or a shareholder holding 25% or more of its voting rights, had at the

date of appointment as an external director, any affiliation with a person then serving as chairman of the board or chief executive officer, a holder of 5% or more of the issued share capital or voting power in the company or the most senior financial officer. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

The term "relative" is defined as a spouse, sibling, parent, grandparent or descendant; spouse's sibling, parent or descendant; and the spouse of each of the foregoing persons.

The term "affiliation" includes (subject to certain exceptions): an employment relationship; a business or professional relationship even if not maintained on a regular basis (excluding insignificant relationships); control; and service as an office holder, excluding service as a director in a private company prior to the initial public offering of its shares if such director was appointed as a director of the private company in order to serve as an external director following the initial public offering.

The term "office holder" is defined under the Israeli Companies Law as a general manager, chief business manager, deputy general manager, vice general manager, any other person assuming the responsibilities of any of these positions regardless of that person's title, a director and any other manager directly subordinate to the general manager.

In addition, no person may serve as an external director if that person's positions or professional or other activities create, or may create, a conflict of interest with that person's responsibilities as a director or otherwise interfere with that person's ability to serve as a director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. A person may furthermore not continue to serve as an external director if he or she received direct or indirect compensation other than as permitted by the Israeli Companies Law and the regulations promulgated thereunder.

If at the time at which an external director is appointed all members of the board of directors who are not Controlling Shareholders or relatives of Controlling Shareholders of the company are of the same gender, the external director to be appointed must be of the other gender.

Election of external directors

The provisions of the Israeli Companies Law set forth special approval requirements for the election of external directors. External directors must be elected by a majority vote of the shares present and voting on the matter at a shareholders meeting, provided that either:

- such majority includes a majority of the shares held by all shareholders who are non-Controlling Shareholders and shareholders who do not have a personal interest in the election of the external director (other than a personal interest not deriving from a relationship with a Controlling Shareholder) that are voted at the meeting, excluding abstentions; or
- the total number of shares held by shareholders who are non-Controlling Shareholders and shareholders who do not have a personal interest in the election of the external director (other than a personal interest not derived from a relationship with a Controlling Shareholder) that voted against the election of the external director does not exceed 2% of the aggregate voting rights in the Company.

The term "controlling shareholder" is defined in the Israeli Companies Law as a shareholder with the ability to direct the activities of a company, other than by virtue of being an office holder ("**Controlling Shareholder**"). A shareholder is deemed to be a Controlling Shareholder if the shareholder holds 50% or more of the voting rights in the company or has the right to appoint 50% or more of the directors of a company or its general manager. For purposes of shareholder approval of certain extraordinary and interested party transactions, as well as corporate approval of executive compensation, a Controlling Shareholder is deemed to include any shareholder (or two or more shareholders having a personal interest in the same matter being brought for approval) who hold(s) in the aggregate 25% or more of the voting rights in a public company if no other shareholder holds more than 50% of the voting rights in the company.

The term "personal interest" is defined in the Israeli Companies Law as a person's or entity's personal interest in an act or a transaction of a company, (i) including the personal interest of (a) any spouse, sibling, parent, grandparent or descendant of the persons, any descendant, sibling or parent of a spouse of the person and the spouse of any of the foregoing; and (b) an entity in which the person or entity or any of the foregoing relatives of the person serves as a director or the chief executive officer, owns at least 5% of its issued share capital or voting rights or has the right to appoint one or more directors or the chief executive officer; but (ii) excluding a personal interest arising solely from the ownership of shares. In the case of a person voting by proxy, "personal

interest" includes the personal interest of the proxy holder or the shareholder granting the proxy (even if the proxy holder has no personal interest in the matter), whether or not the proxy holder has discretion how to vote.

3.3 No share qualification

A Director would not be required to hold any shares in the capital of the Company by way of qualification.

3.4 Retirement of Directors

Pursuant to the expected Articles, a Director (other than an external director) would hold office until the next annual general meeting of Shareholders at which he or she was elected and until his or her successor is elected and qualified, or until the occurrence of certain events, in accordance with the Israeli Companies Law and the Articles, including his or her earlier resignation, death or removal by a vote of the majority of the voting power of the shareholders at a general meeting or until his or her office expires by operation of law. Pursuant to the Israeli Companies Law, an independent Director (including external directors) may not serve for more than consecutive nine years.

3.5 Removal and Termination of external directors

If the Board has determined that an external director ceases to meet the statutory qualifications for appointment or if he or she violates his or her duty of loyalty to the Company, the Board will be required to call a special general meeting of Shareholders for the removal of the external director. In such circumstances, the removal of the external director by the Shareholders requires the same special Shareholder majority that is required for the election of an external director, as described above. An external director may also be removed by order of an Israeli court, at the request of a Director or Shareholder, if the court finds that the external director has ceased to meet the statutory qualifications for his or her appointment or has violated his or her duty of loyalty to the Company. If an external directorship becomes vacant and there are fewer than two external directors on the Board at the time, then the Board is required under the Israeli Companies Law to call a Shareholders' meeting as soon as practicable to appoint a replacement external director.

Following the termination of an external director's service on the Board, such former external director and his or her spouse and children and other relatives may not be provided a direct or indirect benefit by the Company, its Controlling Shareholder or any entity under its Controlling Shareholder's control. This includes engagement as an officer or director of the Company or a company controlled by its Controlling Shareholder or employment by, or provision of services to, any such company for consideration, either directly or indirectly, including through a corporation controlled by such person. This restriction extends for a period of two years with regard to the former external director and his or her spouse or child and for one year with respect to other relatives of the former external director.

3.6 Remuneration of Directors

For further information in relation to the remuneration of Directors, please see Section 7 of Part 6: "*Directors, Senior Management and Corporate Governance*".

Subject to the Israeli Companies Law, the emoluments of any Director holding executive office for his or her services as such will be determined by the remuneration committee and Board and approved the Shareholders in accordance with the Israeli Companies Law, and may be of any description.

The ordinary remuneration of the Directors who do not hold executive office for their services would not exceed in aggregate such amount as the Shareholders may from time to time by ordinary resolution determine, pursuant to the approval of the Compensation Policy by Shareholders.

In addition to any remuneration to which the Directors would be entitled under the Articles and subject to approval in accordance with Israeli law, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with their attendance at meetings of the Board or committees of the Board, general meetings or separate meetings of the holders of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties.

3.7 Personal interests of Directors

The Israeli Companies Law requires that an office holder promptly disclose to the company any "personal interest" that he or she may be aware of and all related material information or documents concerning any existing or proposed transaction with the company. An interested office holder's disclosure must be made promptly and, in any event, no later than the first meeting of the board of directors at which the transaction is

considered. A personal interest includes an interest of any person in an act or transaction of a company, including a personal interest of such person's relative or of a corporate entity in which such person or a relative of such person holds 5% or more of the outstanding shares or voting rights, is a director or general manager or in which he or she has the right to appoint at least one director or the general manager, but excluding a personal interest arising from one's ownership of shares in the company. A personal interest includes the personal interest of a person for whom the office holder holds a voting proxy or the personal interest of the office holder with respect to his or her vote on behalf of a person for whom he or she holds a proxy even if such shareholder has no personal interest in the matter. An office holder is not, however, obliged to disclose a personal interest if it derives solely from the personal interest of his or her relative in a transaction that is not considered an extraordinary transaction.

The Israeli Companies Law defines an "extraordinary transaction" as a transaction that is not in the ordinary course of business, that is not on market terms or that may have a material impact on a company's profitability, assets or liabilities.

Generally, a person who has a personal interest in a matter which is considered at a meeting of the board of directors or the audit and risk committee shall not be present at such a meeting or vote on that matter unless, with respect to an office holder, the chairman of the audit and risk committee or board of directors (as applicable) determines that the office holder should be present during the discussions in order to present the transaction that is subject to approval (provided that the office holder may not vote on the matter). If a majority of the members of the audit and risk committee or the board of directors (as applicable) has a personal interest in the approval of a transaction, then all directors may participate in discussions of the audit and risk committee or the board of directors (as applicable) on such transaction and the voting on approval thereof. If a majority of the members of the board of directors has a personal interest in the approval of a transaction, shareholder approval is also required for such transaction.

If it is determined that an office holder has a personal interest in a transaction that is not an extraordinary transaction, approval by the board of directors is required for the transaction, unless the Articles provide for a different method of approval. Further, so long as an office holder has disclosed his or her personal interest in a transaction, the board of directors may approve an act by the office holder that would otherwise be deemed a breach of his or her duty of loyalty, provided that the transaction is in the company's best interest and the office holder acted in good faith. An extraordinary transaction in which an office holder has a personal interest requires approval first by the company's audit and risk committee and subsequently by the board of directors.

3.8 Powers of the directors

Under the Israeli Companies Law, the management of the Company's business, including strategy and policies, is vested in the Board. The Board would exercise all powers and may take all actions that are not specifically granted to the shareholders or to management. The executive officers of the Company are responsible for the day-to-day management and have individual responsibilities established by the board of directors. The Board may, subject to the provisions of the Israeli Companies Law, delegate some of its powers to committees, each consisting of one or more Directors. For further details on the Company's expected committees, please see Section 3.2 of Part 6: "*Directors, Senior Management and Corporate Governance*".

Pursuant to the Israeli Companies Law, in the event the Board were unable to act or exercise its powers and the exercise of such powers is essential to the proper management of the company, the general meeting of Shareholders is authorised to exercise such powers of the Board, even if the Articles do not stipulate so, subject to the provisions of the Israeli Companies Law. The Board will have the power to assume the responsibilities of the CEO if he/she is unable to act or exercise his/her powers or if he/she fails to fulfil the instructions of the Board with respect to a specific matter.

3.9 Indemnity of officers

Under the Israeli Companies Law, a company may not exculpate an office holder from liability for a breach of the duty of loyalty towards the company. An Israeli company may exculpate an office holder in advance from liability to the company, in whole or in part, for damages caused to the company as a result of a breach of duty of care, but only if a provision authorising such exculpation is included in its articles of association. The Articles will include such provision, to the fullest extent permitted by law. A company may not exculpate in advance a Director from liability arising out of a prohibited dividend or other distribution to shareholders.

Under the Israeli Companies Law, the Israeli Securities Law and the Articles, the Company may indemnify an office holder (including a Director), in respect of the following liabilities and expenses incurred for acts performed by him or her as an office holder, either in advance of an event or following an event:

(a) a financial liability imposed on him or her in favour of another person pursuant to a judgment, including a settlement or arbitrator's award approved by a court. However, if an undertaking to indemnify an office holder with respect to such liability is provided in advance, then such an undertaking must be limited to events which, in the opinion of the board of directors, can be foreseen based on the company's activities when the undertaking to indemnify is given, and to an amount or according to criteria determined by the board of directors as reasonable under the circumstances, and such undertaking shall detail the abovementioned foreseen events and amount or criteria;

(b) reasonable litigation expenses, including attorneys' fees, incurred by the office holder (1) as a result of an investigation or proceeding instituted against him or her by an authority authorised to conduct such investigation or proceeding, provided that (i) no indictment was filed against such office holder as a result of such investigation or proceeding; and (ii) no financial liability was imposed upon him or her as a substitute for the criminal proceeding as a result of such investigation or proceeding or, if such financial liability was imposed, it was imposed with respect to an offense that does not require proof of criminal intent; and (2) in connection with a monetary sanction;

(c) reasonable litigation expenses, including attorneys' fees, incurred by the office holder or imposed by a court in proceedings instituted against him or her by the company, on its behalf, or by a third party, or in connection with criminal proceedings in which the office holder was acquitted, or as a result of a conviction for an offense that does not require proof of criminal intent; and:

(d) expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder, or certain compensation payments made to an injured party imposed on an office holder by an administrative proceeding, pursuant to certain provisions of the Israeli Securities Law.

Under the Israeli Companies Law, the Israeli Securities Law and the Articles, the Company may obtain insurance for office holders against the following liabilities incurred for acts performed by him or her as an office holder:

(a) a breach of duty of care to the Company or to a third-party, to the extent such a breach arises out of the negligent conduct of the office holder;

(b) a breach of duty of loyalty, provided that the office holder acted in good faith and had reasonable grounds to believe that the action would not harm the Company;

(c) a financial liability imposed on the office holder in favour of a third-party; and

(d) expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder or certain compensation payments to an injured party imposed on an office holder by an administrative proceeding, pursuant to certain provisions of the Securities Law.

Under the Israeli Companies Law, the Company may not indemnify, exculpate or enter into an insurance contract for office holder liability, for any of the following:

(a) a breach of duty of loyalty except for indemnification and insurance for a breach of the duty of loyalty to the company, to the extent that the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the Company; a breach of duty of care committed intentionally or recklessly, excluding a breach arising out of the negligent conduct of the office holder;

(b) an act or omission committed with intent to derive illegal personal benefit; or

(c) a fine, monetary sanction or forfeit levied against the office holder.

Pursuant to the Israeli Companies Law, exculpation, indemnification and insurance of officers and directors in a public company must be approved by the remuneration committee and the Board and, with respect to the chief executive officer and a director or (under certain circumstances), also by the shareholders. Please see Section 7 of Part 6: "*Directors, Senior Management and Corporate Governance*".

However, under a recent amendment to regulations promulgated under the Israeli Companies Law, the insurance of office holders shall not require shareholder approval and may be approved only by the remuneration committee, if the engagement terms are determined in the company's compensation policy and

that policy was approved by the shareholders by the Special Approval for Compensation, provided that the policy is on market terms and is not likely to materially impact the company's profitability, assets or obligations.

The Articles permit the Company to exculpate, indemnify and insure its office holders to the fullest extent permitted under the Israeli Companies Law and the Israeli Securities Law. The Company expects to obtain directors' and officers' liability insurance for the benefit of its office holders and is expected to maintain such coverage and pay all premiums thereunder to the fullest extent permitted by the Israeli Companies Law.

4. DIRECTORS' AND SENIOR MANAGERS' INTERESTS

None of the Directors or Senior Managers has any interests in the share capital of the Company as at the date of this Registration Document.

In addition, no Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Group or any of its subsidiary undertakings and which were effected by the Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

There are no outstanding loans or guarantees granted or provided by any member of the Group to or for the benefit of any of the Directors.

5. MAJOR INTERESTS IN SHARES

As at the date of this Registration Document, insofar as is known to the Company, the following persons are interested in 3% or more of the Company's share capital:

Major Shareholders	Number of Shares	Number of Preferred A Shares	Number of Special Shares
Major Shareholder	33,870,124	9,825,023	—
Argentem Creek	—	—	10
Viola Credit	8,467,531	174,977	—

Save as disclosed above, in so far as is known to the Company, there is no other person who is directly or indirectly, interested in 3% or more of the issued share capital of the Company, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over the Company. The Directors have no knowledge of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

The Company's major shareholders have different voting rights. See section 1.2 of this Part 10: "*Additional Information*" for a description of the different voting rights attached to the Shares, Preferred A Shares and the Special Shares.

The Company intends to undertake a reorganisation of the Group pursuant to which, amongst other things, all of the Preferred A Shares would convert into Shares and the Special Shares would be acquired pro rata by the Major Shareholder and Viola Credit and subsequently convert into Shares, such that following the reorganisation, the Company would only have Shares issued and outstanding. Following the reorganisation, the major shareholders of the Company would not have different voting rights attached to the shares they hold in the Company.

6. DIRECTORS' TERMS OF SERVICE

The Directors and their functions are set out in Section 1 of Part 6: "*Directors, Senior Managers and Corporate Governance*". The Directors terms of service are summarised below:

6.1 Service Agreements

Each of the Executive Directors has entered into a service agreement setting out the terms of their employment together with amendments, which are conditional upon, and become effective from, the successful consummation of an initial public offering and the securities of the Company or ECI Telecom Ltd. being listed ("**Admission**").

President and Chief Executive Officer

The President and Chief Executive Officer is entitled to a remuneration package comprising a salary of £416,000 per annum, an annual performance bonus of up to £330,000, a company car, medical expenses insurance, accommodation and travel expenses. In addition, the President and Chief Executive Officer is entitled to a retention bonus of US$500,000 payable on 10 January 2019, provided that he continuously remains the Chief Executive Officer of the Company on and until 31 December 2018. This retention bonus will not be payable if the President and Chief Executive Officer resigns or if his employment terminates in one of the circumstances listed in the contract as an immediate termination event but it will be payable if his employment terminates due to death or disability.

The President and Chief Executive Officer is also entitled to a cash bonus in connection Admission (the "**IPO Bonus**"). The IPO Bonus is payable in three instalments, 50% on the date of Admission, 25% on the first anniversary of the date of Admission and a further 25% on the second anniversary of the date of Admission provided that no "non-qualified termination event" has occurred prior to each relevant payment date. The value of the IPO Bonus shall be determined by the "Enterprise Value" of the Company (or ECI Telecom Ltd.) on the date of Admission which is calculated as the equity value of the Company (price per share multiplied by number of issued and outstanding ordinary shares) plus the net financial debt of the Company (or ECI Telecom Ltd.) on that date. If the Enterprise Value is between $300 million and $350 million the IPO Bonus will be $1 million plus 4% of that portion of the Enterprise Value that exceeds $300 million. If the Enterprise Value is between $350 million and $400 million, the IPO Bonus will be $3 million plus 2% of the portion of the Enterprise Value that exceeds $350 million. If the Enterprise Value is between $400 million and $420 million the IPO Bonus will be 1.375% of the Enterprise Value. If the Enterprise Value is between $420 million and $500 million the IPO Bonus will be 1.5% of the Enterprise Value. If the Enterprise Value is at least $500 million the IPO Bonus will be 2% of the Enterprise Value. The unpaid portions of the IPO Bonus will not be payable if, prior to the relevant payment date, the President and Chief Executive Officer resigns or terminates his employment (other than at the request of the Company or if he is constructively dismissed).). If the President and Chief Executive Officer resigns after the first anniversary of Admission but prior to the date which falls 18 months after Admission, the third instalment of the IPO Bonus will not be payable and if the second instalment has already been paid, it shall be repayable to the Company.

The President and Chief Executive Officer's employment is terminable by either party giving the other at least six months' notice of termination with the proviso that neither party can terminate the contract prior to 30 June 2019, unless the Company terminates the contract in one of the circumstances listed in the contract as an immediate termination event. If the Company chooses to terminate the President and Chief Executive Officer's employment other than in one of the circumstances listed in the contract as an immediate termination event, he is entitled to receive his basic salary during the six month notice period and any bonus that may be due at the end of the notice period and he will be entitled to an additional payment equal to £105,000 (the "**Ex Gratia Payment**"). This Ex Gratia Payment will also be payable if the President and Chief Executive Officer chooses to terminate his employment, provided that he resigns after 30 June 2019. If the President and Chief Executive Officer gives notice to terminate his employment at any time, the Company may elect to terminate his employment with immediate effect and make a payment in lieu of notice comprising basic salary only rather than requiring him to work during his notice period.

The President and Chief Executive Officer employment is terminable with immediate effect (and with no obligation on the Company to pay him notice pay or the Ex Gratia Payment) in certain circumstances including where he (i) commits a serious or persistent breach of his obligations under his employment agreement or at law; (ii) does not comply with any lawful written order or direction of the Board; (iii) is charged with gross misconduct or conducts himself in a way which is harmful or adversely effects the interests of the Company; (iv) is convicted of a criminal offence (other than a motoring offence which does not carry as a maximum punishment a sentence of imprisonment); (v) is guilty of any fraud or dishonesty or acts in a manner which is likely to bring the Company into disrepute; (vi) is declared bankrupt; (vii) becomes disqualified from being a director of a company or his directorship of the Company terminates without the consent or concurrence of the Board; or (viii) if he is found guilty of a serious breach of the requirements, rules or regulations of the UK Listing Authority or other applicable regulations relating to dealing in securities.

The President and Chief Executive Officer's employment agreement includes confidentiality and non-competition provisions in respect of certain clients, customers and suppliers.

Executive Vice President and Chief Financial Officer

The Executive Vice President and Chief Financial Officer is entitled to a remuneration package comprising a basic salary of NIS 113,226 per month, an annual performance bonus of up to six months' salary, a company car allowance, contributions to a managers' insurance policy and an education fund. In addition to normal public holidays, the Executive Directors are entitled to 25 working days of paid holiday each year.

The Executive Vice President and Chief Financial Officer's employment is terminable by either party giving the other at least six months' notice of termination. The Company may elect to make a payment in lieu of notice equivalent to the Executive Vice President's basic salary and benefits. The Executive Vice President and Chief Financial Officer's employment is terminable with immediate effect (and with no obligation on the Company to pay him notice pay or any severance pay) in accordance with Israeli law which includes circumstances where he commits a criminal offence, breaches fiduciary duties, confidentiality or non-competition provisions, where he becomes disqualified from being a director of a company and if he is found guilty of a serious breach of the requirements, rules or regulations of the UK Listing Authority or other applicable regulations relating to dealing in securities. The Executive Vice President and Chief Financial Officer's employment agreement includes post-termination restrictive covenants restricting him for a period of twelve months following the termination of his employment from competing with the Company or soliciting employees, customers or suppliers of the Company to leave the Company or terminate their contracts with the Company.

6.2 Letters of Appointment

Independent Chairman

Franco Bernabè has been appointed as the Independent Chairman of the Company pursuant to the terms of an appointment letter entered into on 17 September 2018. The Independent Chairman's appointment will be for a period until the Company's next annual general meeting of Shareholders. Continuation of his appointment is dependent upon satisfactory performance and re-election by Shareholders at forthcoming annual general meetings of the Company. The Independent Chairman's appointment shall terminate immediately if he is not re-elected by the Shareholders or is retired from office under the Articles or the Israeli Companies Law. The Company may also terminate the Independent Chairman's appointment immediately in a number of cases including where he commits a material breach of its obligations under the appointment letter or where he is removed or ceases to be a director in accordance with the Articles or the Israeli Companies Law.

Franco Bernabè will receive an annual fee of £250,000 for carrying out his duties as the Independent Chairman of the Company, payable quarterly in arrears. Mr Franco Bernabè is expected to serve as the chairperson of the Audit and Risk Committee but would not receive an additional fee for this service. The Company shall reimburse the Independent Chairman for any reasonable travel and other expenses incurred in connection with the carrying out of his duties pursuant to the letters of appointment. In addition, the letter of appointment contains obligations of confidentiality and restrictions on conflicts. The Independent Chairman is required to allocate sufficient time to discharge his or her responsibilities effectively. In addition, the Company has entered into an indemnification agreement with the Independent Chairman, under which the Company has undertaken to indemnify and exculpate the Non-Executive Directors to the fullest extent permitted under the Israeli Companies Law.

Non-Executive Directors

Stanley B. Stern has been appointed as a Non-Executive Director of the Company and Andrew MacLeod has been appointed as an Independent Non-Executive Director and Senior Independent Director of the Company pursuant to appointment letters entered into on 17 September 2018. The appointments of these Directors will be for a period until the Company's next annual general meeting of Shareholders. Continuation of their appointment is dependent upon satisfactory performance and re-election by Shareholders at forthcoming annual general meetings of the Company.

Each of these Non-executive Director's appointments shall terminate immediately if the Non-Executive Director is not re-elected by the Shareholders or is retired from office under the Articles or the Israeli Companies Law. The Company may also terminate their appointment immediately in a number of cases including where the Non-executive Director commits a material breach of its obligations under the appointment letter or where the Director is removed or ceases to be a director in accordance with the Articles or the Israeli Companies Law.

Stanley B. Stern and Andrew MacLeod will receive:

- an annual fee of £50,000 each for carrying out their duties as Directors of the Company;
- in the case of Andrew MacLeod only, an additional fee of £7,000 per annum to serve as the Senior Independent Director of the Company;
- an additional fee of £1,000 each for each board meeting of the Company attended; and
- an additional allowance of £750 per meeting where more than six hours of travel is required.

The above fees are payable quarterly in arrears. No additional fee will be paid for serving as a member of the Audit and Risk Committee, Remuneration Committee or the Nomination Committee.

The Company shall reimburse these Directors for any reasonable travel and other expenses incurred in connection with the carrying out of their duties pursuant to the letters of appointment. In addition, each letter of appointment contains obligations of confidentiality and restrictions on conflicts. Each of these Director is required to allocate sufficient time to discharge his or her responsibilities effectively. In addition, the Company has entered into an indemnification agreement with each of these Non-Executive Directors, under which the Company has undertaken to indemnify and exculpate these Non-Executive Directors to the fullest extent permitted under the Israeli Companies Law.

External Directors

Dafna Sharir and Tido van Wieringen have each been appointed as Non-Executive Directors of the Company and, if the Company becomes a public company, external directors under the Israeli Companies Law, subject to the ratification of such election by the shareholders of the Company (by a special majority) within three months following becoming a public company, in accordance with the Israeli Companies Law. Subject to such shareholder ratification, these Directors shall serve for an initial term of three years and may be re-elected for two additional three-year terms by the Shareholders, pursuant to a specific limitation of the Israeli Companies Law. The service of these Directors may be terminated where the Board determines that they cease to meet the statutory qualifications for appointment or have violated their duty of loyalty and Shareholders have approved the removal by a special Shareholder majority. In addition, these Directors may be removed by court order at the request of a director or shareholder in such circumstances. For more details on the appointment and removal of external directors, see Sections 3.2 and 3.4 of this Part 10: "Additional Information".

These Directors are entitled, and subject to shareholder approval following becoming a public company, shall be entitled, to the same fees (other than the Senior Independent Director fee) and reimbursement of expenses as Stanley B. Stern and Andrew MacLeod outlined above, except that they will receive an additional fee of £7,000 per annum, payable quarterly in arrears, if they are appointed to serve as the chairperson of the Audit and Risk Committee (in the case of Tido van Wieringen) or the Remuneration Committee (in the case of Dafna Sharir). No additional fee will be paid for serving as a member of the Audit and Risk Committee, Remuneration Committee or the Nomination Committee.

These Directors are also subject to the same obligations with respect to confidentiality, restrictions on conflicts and allocation of time as Stanley B. Stern and Andrew MacLeod outlined above.

6.3 Directors' and Senior Managers' Remuneration

Under the terms of their service contracts, letters of appointment and applicable incentive plans, in the year 31 December 2017, the aggregate remuneration and benefits to the Directors and the Senior Managers who served during the year ended 31 December 2017, consisting of five individuals, was $3.161 million. The Independent Chairman and Non-Executive Directors did not receive any remuneration for the financial year ended 31 December 2017.

There is no arrangement under which any Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this Registration Document.

6.4 Directors' and Senior Managers' current and past directorships and partnerships

Set out below are the directorships and partnerships held by the Directors and Senior Managers (other than, where applicable, directorships held in the Company and/or any other company in the Group), in the five years prior to the date of this Registration Document:

Name	Current directorships / partnerships	Past directorships
Franco Bernabè	Nexi Payments S.p.A.	N
	GSMA Ltd.	N
	FB Group	N
	TIM S.p.A.	Y
Darryl Edwards	—	—
Giora Bitan	—	—
Andrew MacLeod	Idex ASA	N
	Gfinity plc	N
	Verizon Horizon	Y
	Future Films Ltd.	N
	Vodafone Hutchinson Australia	Y
Stanley B. Stern	Alnitak Capital Partners	N
	SodaStream International Ltd.	N
	Audiocodes Inc.	N
	Omrat Technologies Inc.	N
	Foamix Pharmaceuticals, Ltd.	N
	Esko Bionics Holdings, Inc.	N
	Given Imaging	Y
Dafna Sharir	Frutarom Industries Inc.	N
	Gilat Satellite Networks, Inc.	N
	Omrat Technologies Inc.Denstorm, Ltd	N
	Brightcodes Technologies, Ltd	N
		N
	Serra Partners	N
	DNGB B.V.	N
Tido van Wieringen	Robeco Institutional Asset Management B.V.	N
Jimmy Mizrahi	—	—
Fernando Valdivielso	—	—
Boaz Yardeni	—	—

Within the period of five years preceding the date of this Registration Document, none of the Directors or Senior Managers:

(a) has had any convictions in relation to fraudulent offences;

(b) has been a member of the administrative, management or supervisory bodies or director or senior manager (who is relevant in establishing that a company has the appropriate expertise and experience for management of that company) of any company at the time of any bankruptcy, receivership or liquidation of such company; or

(c) has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

7. EMPLOYEE SHARE PLAN

7.1 2014 Share Incentive Plan (the "Existing Plan")

Overview

In 2014, the Board approved and adopted the Existing Plan, which was submitted for the approval of the Israel Tax Authority, as required by applicable law. The Existing Plan permits the issuance of options, shares or restricted stock units ("**RSUs**") to employees, directors, consultants and contractors of the Company or its affiliates. For the purpose of the Existing Plan, an "affiliate" means any company: (i) that is a controlling shareholder of the Company; (ii) in which the Company is a controlling shareholder; or (iii) which has a controlling shareholder that is also a controlling shareholder of the Company. For this purpose, controlling shareholders is defined under Section 102 of the Israeli Income Tax Ordinance, 1961 (the "**Ordinance**") as a person or entity that owns 10% or more of the total combined voting power of all classes of the equity of the Company or any affiliate thereof immediately before the grant of the award.

Administration of the Existing Plan

The Board has the authority to administer the Existing Plan and determine, inter alia,: (i) the grantees under the Existing Plan; (ii) the number of options, shares or RSUs (the "**Awards**") granted under the Existing Plan; (iii) the time at which the Awards shall be granted; (iv) the schedule and conditions, including performance conditions (if applicable) on which the Awards may vest or be exercised; (v) the exercise price of the Awards and the terms of payment (including cashless exercise); and (vi) the rules and provisions to permit non-Israeli residents to participate in the Existing Plan.

Awards under the Existing Plan

All grants of Awards to Israeli employees, directors and office holders of the Company or an affiliate thereof (other than controlling shareholders, within the meaning of the Ordinance) are granted pursuant to Section 102 of the Ordinance ("**Section 102 Awards**") under a "tax route", being either "the ordinary income route" or the "capital gains route". Once the taxation route under Section 102 has been determined, the Board may not grant Section 102 Awards under a different taxation route until the lapse of one-year form the end of the tax year in which Section 102 Awards were first granted. Persons or entities that are deemed controlling shareholders within the meaning of the Ordinance, Israeli consultants and contractors or affiliates thereof are not eligible to receive Section 102 Awards and shall be granted awards pursuant to Section 3(i) of the Ordinance, which provides reduced tax benefits as compared to those provided under Section 102.

The Board has granted Section 102 Awards to date under the "capital gains route." In order to comply with the terms of this taxation route, all Awards granted thereunder (including any shares issued upon exercise of options granted thereunder and other shares received following issuance of share dividends or share splits) must be registered in the name of a trustee selected by the Board (the "**102 Trustee**") and held in trust for the benefit of the relevant grantee for a period of two years as of the date of the grant of the Award (the "**Holding Period**"). Grantees are not permitted to sell or transfer their Section 102 Awards or underlying shares until the lapse of the Holding Period, other than in cases where the applicable tax was withheld or paid by the grantee. Upon the lapse of the Holding Period, the 102 Trustee must release the Award or underlying shares to the grantee, or, if the Company's shares are listed on a stock exchange, it must make best efforts to sell the shares held in trust and, after deducting the applicable taxes, pay the balance thereof to the grantee.

Shares issued to a grantee, whether as an Award or upon the exercise of an option granted under the Existing Plan, entitle such grantee to receive dividends with respect thereto. Until the consummation of an initial underwritten public offering of the Company's shares, all shares acquired upon the exercise of an Award are voted by a proxy.

Term of Options and Vesting

Options granted under the Existing Plan generally expire within six years of the date of the grant, or upon the earlier termination of employment or services by the grantee. With respect to employees, in the event of the termination of employment, options shall terminate as follows: (i) all options not vested on the date of termination shall terminate; (ii) if the reason for termination is death or disability, options may be exercised by the grantee, grantee's guardian, legal representative, estate, successor or heir within 12 months as of the date of termination (but in any event not after the expiration of the options); (iii) if the reason for termination is breach of grantees duties, commission of a flagrant criminal offence, intentional misconduct adversely affecting the Company and its business, or any other conduct that would allow for the termination of grantee's employment

without severance pay in accordance with the Israeli Severance Pay Law, 1963, all options, vested or unvested, shall terminate; and (iv) in all other circumstance, any vested options may be exercised by a grantee until the lapse of the grantee's notice period plus an additional period of three months, but in no event for a period greater than six months as of the termination date (if a grantee dies during such period, the terms under (ii) shall apply). Such provisions shall apply to directors, consultants and contractors, as applicable. Notwithstanding the foregoing, the Board may determine a shorter or longer exercise period.

Unless determined otherwise by the Board, Awards vest (but do not become exercisable unless all conditions described below are met) as follows: (i) for employees hired prior to 1 September 2014, monthly vesting over a period of 36 months; and (ii) for employees hired after 1 September 2014, monthly vesting over a period of 36 months (with the first vesting to occur after the first six months from the grant date); in each case, subject to grantee's continuous engagement with the Company or an affiliate thereof from the date of grant to the applicable vesting date.

Exercise of Options

The exercise price of the options may be determined and amended by the Board from time to time. The Board may, at its sole discretion, adjust the exercise price of options due to distribution of cash dividends or dividend in kind. The number of shares subject to each outstanding Award and the exercise price thereof shall be adjusted appropriately pursuant to any share split, reverse share split, stock dividend, combination of reclassification of shares, or any other increase or decrease in the number of issued shares of the Company affected without receipt of consideration by the Company (other than conversion of convertible securities). The Board may determine that any option granted under the Existing Plan shall be exercised using a net exercise method.

Unless otherwise determined by the Board, the Award shall become exercisable only if all the following conditions have been met at the time of exercise: (i) the Award has vested in accordance with its terms; (ii) an initial underwritten public offering of share of the Company or Corporation Transaction (as such term is defined in the Existing Plan) has been consummated; and (iii) the grantee is engaged by the Company or an affiliate thereof (other than as described below).

Grantees are not permitted to assign or transfer an Award other than by will or the laws of descent and distribution. Grantees' right to sell shares issued upon the exercise of an option may be subject to certain limitations, such as a lock-up period.

Liquidation; Corporate Transaction

In the event of a proposed dissolution or liquidation of the Company, all outstanding Awards shall terminate immediately prior to the consummation of such proposed action.

Subject to the other terms of the Existing Plan, on a corporate transaction (as such term is defined in the Existing Plan), the vesting period of all outstanding Awards shall be accelerated and outstanding Awards shall be considered fully vested (unless the grantee's employment or service was terminated prior to the consummation of the corporate transaction, in which case the provisions described above shall apply). Immediately prior to the consummation of a Corporation Transaction (as such term is defined in the Existing Plan), the Board may, at its sole discretion determine that the Awards (i) be substituted for a comparable award of the successor entity; or (ii) be assumed by the successor entity. Immediately following the consummation of a merger and acquisition transaction, all outstanding Awards shall terminate, unless assumed by the successor entity. In addition, the Board may determine that any Awards may be exercised, accelerated, or cancelled. In the event of a sale of all or substantially all of the issued and outstanding share capital of the Company, the Board may determine that all grantees are obligated to participate in the sale.

8. PENSIONS

The Group contributes to pension schemes (or similar type schemes) for its employees in Israel, Argentina, Brazil, Chile, China, Colombia, Costa Rica, France, Germany, India, Mexico, the Philippines, Poland, Russia, the United States, the United Kingdom and Vietnam.

The Company does not operate a defined benefit pension scheme for the benefit of its Directors or Senior Managers.

9. SUBSIDIARIES, INVESTMENTS AND PRINCIPAL ESTABLISHMENTS

The Company is the principal operating and holding company of the Group. The principal subsidiaries and subsidiary undertakings of the Company are as follows:

9.1 Subsidiaries and subsidiary undertakings

Name	Country of incorporation and registered office	% ownership interest and voting power	Field of activity
ECI Telecom Ltd.	Israel	100[(1)]	Telecommunications
Negev Telecom Ltd.	Israel	100	Telecommunications
Hangzhou ECI Telecommunication Co., Ltd.	China	100	Telecommunications
ECI Networks Solutions B.V.	The Netherlands	100	Telecommunications
ECI Telecom Holdings B.V.	The Netherlands	100	Telecommunications
ECI Telecom (PH), Inc.	Philippines	100	Telecommunications
ECI Telecom (UK) Ltd.	England and Wales	100	Telecommunications
ECI Telecom (GmbH)	Germany	100	Telecommunications
ECI Telekom SP. z.o.o	Poland	100	Telecommunications
ECI Telecom (HK) Ltd.	Hong Kong	100	Telecommunications
ECI Telecom (HK) Ltd. Singapore Branch	Hong Kong/ Singapore[(2)]	100	Telecommunications
ECI Telecom Holdings B.V Vietnam Rep. Office	Vietnam	100	Telecommunications
ECI Telecom 2005 LLC	Russia	100	Telecommunications
ECI Telecom Inc.	United States	100	Telecommunications
ECI Telecom Costa Rica S.A.	United States	100	Telecommunications
ECI Telecom Ukraine LLC	Ukraine	100	Telecommunications
ECI Telecom SAS	France	100	Telecommunications
ECI Telecom India Private Ltd.	India	100	Telecommunications
ECI De Mexico, S.A. de C.V.	Mexico	100	Telecommunications
ECI Telecom Chile Ltda	Chile	100	Telecommunications
ECI Telecom Sur America Ltda	Columbia	100	Telecommunications
ECI Telecom DO BRASIL	Brazil	100	Telecommunications
ECI de Argentina SA	Argentina	100	Telecommunications

(1) Direct subsidiary. All others are indirect.

(2) Country of incorporation is Hong Kong and country of registered office is Singapore.

9.2 Principal establishments

The following are the principal establishments of the Group:

Owner/Lessee	Location	Tenure	Expiry date
ECI Telecom Ltd.	Petach Tikva, Israel	Leased	23 September 2023
ECI Telecom Ltd.	Petach Tikva, Israel	Owned	Not applicable
ECI Telecom Ltd.	Petach Tikva, Israel	Owned	Not applicable
ECI Telecom Ltd.	Givat Shmuel, Israel	Owned	Not applicable
ECI Telecom Ltd.	Ashtrum, Israel	Leased	31 December 2018
Negev Telecom Ltd.	Omer Industrial Park, Israel	Leased	30 April 2019
Negev Telecom Ltd.	Beer Sheva, Israel	Leased	1 January 2022
ECI Telecom (UK) Ltd.	Basingstoke, United Kingdom	Leased	24 March 2021
ECI Telecom (UK) Ltd.	Ipswich, United Kingdom	Leased	Not applicable
ECI Telecom (GmbH)	Oberursel, Germany	Leased	31 December 2018
ECI Telecom (GmbH)	Teltow, Germany	Leased	31 January 2019
ECI Telecom SAS—France	Paris, France	Leased	25 June 2026
ECI Ukraine LLC	Kiev, Ukraine	Leased	30 September 2018
ECI TELEKOM Polska sp z.o.o	Warsaw, Poland	Leased	1 December 2019
ECI Telecom Inc.	Florida, USA	Leased	31 March 2020
ECI Telecom Inc.	Pennsylvania, USA	Leased	1 March 2019
ECI Telecom India Private Ltd.	Mumbai, India	Leased	31 May 2022
ECI Telecom India Private Ltd.	Mumbai, India	Leased	15 November 2019
ECI Telecom India Private Ltd.	Bangalore, India	Leased	30 April 2019
ECI Telecom India Private Ltd.	Dehli, India	Leased	15 August 2022
ECI Telecom India Private Ltd.	Pune, India	Leased	30 June 2020
ECI Telecom India Private Ltd.	Ahmedabad, India	Leased	26 June 2019
ECI Telecom India Private Ltd.	Chennai, India	Leased	11 October 2022
ECI Telecom India Private Ltd.	Hyderabad, India	Leased	31 January 2019
ECI Telecom India Private Ltd.	Kolkata, India	Leased	30 November 2018
ECI Telecom India Private Ltd.	Cochin, India	Leased	30 October 2018
Hangzhou ECI Telecommunication Co. Ltd.	Hangzhou, China	Leased	31 December 2018
Hangzhou ECI Telecommunication Co. Ltd.	Hangzhou, China	Leased	31 January 2019
ECI Telecom (PH) Inc.	Makati City, Philippines	Leased	31 October 2018
ECI Telecom (PH) Inc.	Makati City, Philippines	Leased	30 April 2019
ECI Telecom Holdings B.V. Vietnam Rep. Office	Hanoi, Vietnam	Leased	20 February 2019
ECI Telecom Do Brasil	Curitiba, Brazil	Leased	Not applicable
ECI Telecom Sur America Ltda.	Bogota, Columbia	Leased	31 May 2019
ECI Telecom Sur America Ltda.	Bogota, Columbia	Leased	Not applicable
ECI Telecom Costa Rica S.A	San Jose, Costa Rica	Leased	1 March 2019
ECI Telecom 2005 LLC	Moscow, Russia	Leased	31 July 2019
ECI Telecom 2005 LLC	Saint Petersburg, Russia	Leased	9 December 2018
ECI Telecom 2005 LLC	Novosibirsk, Russia	Leased	31 March 2020

10. STATUTORY AUDITORS

The auditors of the Company for the period covered by the historical financial information (as set out in Part 9: "*Historical Financial Information*") has been Somekh Chaikin, Certified Public Accountants (Isr.), a member firm of KPMG International, whose registered address is at 17 Ha'arba'a Street, Millennium Tower, Tel Aviv 6812508 Israel. Somekh Chaikin, Certified Public Accountants (Isr.), a member firm of KPMG International, is registered to carry out audit work by the Auditor's Council of the Israeli Ministry of Justice. Somekh Chaikin, Certified Public Accountants (Isr.), a member firm of KPMG International, has provided an accountant's report on the full year historical financial information of the Group for the years ended 31 December 2015, 31 December 2016 and 31 December 2017 and the six months ended 30 June 2018 (as set out in Section A of Part 9: "*Historical Financial Information*").

11. MATERIAL CONTRACTS

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Group: (a) within the two years immediately preceding the date

of this Registration Document which are, or may be, material to the Company or any member of the Group, and (b) at any time and contain provisions under which the Company or any member of the Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Group as at the date of this Registration Document:

11.1 Investor's Rights Agreement

On 29 March 2018, the Company, ECI Telecom Ltd, Argentem Creek, Viola Credit and the Swarth Group entered into an Investor's Rights Agreement (the "**IRA**"). The principal purpose of the IRA is to set forth certain agreements between the parties in respect of the governance of the Group and the economic arrangements and other rights and obligations as between the parties. The IRA contains, among others, the following provisions:

(a) *Terms of the Preferred Shares*. The Preferred Shares of ECI Telecom Ltd. held by Argentem Creek shall have priority and preference in right of payment, redemption and buy-back. Upon the occurrence of an Exit Event (as defined in the IRA and summarised below), Argentem Creek is entitled to receive, from any amounts available for distribution to the shareholders or from the consideration payable to the shareholders, as applicable, in cash or in marketable securities and in preference to all other equity holders, a pre-determined amount calculated pursuant to a formula set forth in the IRA (the "**Argentem Creek Preference Amount**"). An Exit Event of ECI Telecom Ltd. is generally defined as the earliest to occur of (i) ninety-one days following the maturity date of the Senior Facility, (ii) liquidation or commencement of certain liquidation or other similar proceedings, (iii) a public offering or an initial public offering of ECI Telecom Ltd., the Company or any subsidiary of ECI Telecom Ltd. (including registration for trading through a reverse merger or otherwise), subject to certain exceptions, or (iv) under certain circumstances, mergers, acquisitions and change of control transactions (each of (iii) and (iv), a "**Liquidity Event**").

(b) *Information and Observer Rights*. Argentem Creek was granted certain information rights (including, among others, receipt of annual and quarterly financial statements of ECI Telecom Ltd. and its subsidiaries and immediate reports upon the occurrence of certain material events) and certain access and inspection rights. For as long as Argentem Creek owns any shares in ECI Telecom Ltd. or the Company, Argentem Creek has the right to appoint a non-voting observer to the board of directors of the Company and ECI Telecom Ltd. and to any committee thereof.

(c) *Liquidity Events*. The consent of Argentem Creek is required for any agreement to effect a Liquidity Event, unless (i) the proceeds paid in connection with such Liquidity Event are sufficient to pay the Argentem Creek Preference Amount within a pre-determined period, or (ii) such Liquidity Event is taken by the agent under the Senior Facility. If no Liquidity Event occurs prior to the later of (i) five years following 29 March 2018 and (ii) the lapse of ninety-one days following the maturity of the Senior Facility (as may be extended in certain circumstances), Argentem Creek has the right to demand that the Company or ECI Telecom Ltd. purchase its shares in ECI Telecom Ltd. in consideration for the Argentem Creek Preference Amount.

(d) *Marketing Right*. Argentem Creek was granted certain marketing rights to effect a sale of ECI Telecom Ltd. under certain terms and conditions described in the IRA, including, among others, the right to lead such sale transaction and hire investment banks. Such rights may be exercised by Argentem Creek at any time following the earlier of (i) 30 June 2019 and (ii) the date on which there shall be a breach of the IRA (the "**Marketing Right Date**"). The shareholders of the Company, the Company and ECI Telecom Ltd. undertook to support such a sale under certain terms and conditions and to provide reasonable cooperation and assistance to Argentem Creek and provided various proxies and powers of attorney to enable Argentem Creek to exercise its marketing rights. In addition, effective from the date that is three months following the Marketing Right Date (the "**Drag Along Right Date**"), Argentem Creek shall be entitled to appoint the majority of the board of directors of the Company and ECI Telecom Ltd. and to replace any director who does not wish to support Argentem Creek's actions in connection with the exercise of their rights under the IRA.

(e) *Drag Along Right*. From and after the Drag Along Right Date, Argentem Creek shall have drag along rights, such that, if Argentem Creek approves and accepts an offer from a potential third party buyer to effect a sale of ECI Telecom Ltd., then, provided that such sale meets certain criteria, such approval shall be binding upon the Company and its shareholders.

(f) *Covenants*. ECI Telecom Ltd., the Company and its shareholders undertook certain negative covenants in respect of, among other things, the issuance and transfer of shares, preservation of the special purpose

vehicle status of the Company, incurrence of indebtedness, granting security interests, certain amendments to the constitutional documents, Liquidity Events, payments of dividends, change or cessation of business, liquidation and amendment to certain agreements.

(g) *Drag and Buy-Back Rights of the Swarth Group*. In a transaction in which a third party has unconditionally offered to purchase the entire share capital of ECI Telecom Ltd. and subject to certain conditions, the Swarth Group and the Company have a right to compel Argentem Creek to consummate a sale of its Preferred Shares in ECI Telecom Ltd. In addition, the Preferred Shares in ECI Telecom Ltd. are subject to certain call rights of the Swarth Group.

(h) *Swarth's Covenants*. Swarth Group undertook, among other undertakings, to hold (directly or indirectly) at all times not less than 51% of the means of control of the Company and ECI Telecom Ltd. and to procure that Shaul Shani will hold (directly or indirectly) at all times not less than 51% of the means of control of Swarth.

(i) *Terms of the Special Shares of the Company*. The Special Shares of the Company held by Argentem Creek confer upon Argentem Creek similar rights to the rights attached to the Preferred Shares in ECI Telecom Ltd., *mutatis mutandis*, as more fully set forth in the Articles. The Special Shares of the Company are subject to the call and buy-back rights of the Swarth Group and the Company's described above.

(j) *Gross Up*. Any amount to be paid to Argentem Creek pursuant to the IRA will be grossed up for any withholding or deduction required to be made pursuant to applicable law.

11.2 CVR Agreements

On 29 March 2018, the Borrower, the Company and each of the lenders under the Senior Facility, individually (collectively, the "**CVR Holders**") entered into Contingent Value Rights Deeds (collectively, the "CVR Agreements"). The CVR Agreements set forth the entitlement of CVR Holders to receive certain payments (in cash and/or in kind) from the Borrower (the "**CVR Payments**"), upon and subject to receipt of certain payments by the Borrower and Viola Credit (collectively, the "**Initial Investors**") in respect of the ordinary shares and preferred shares of the Company held thereby.

The CVR Agreements contain, among others, the following provisions:

(a) *CVR Payments*. The CVR Holders are generally entitled to receive CVR Payments, upon and subject to receipt of certain payments (in cash or in kind) by the Initial Investors in respect of their shareholdings in the Company, upon the occurrence of certain events, including, among others, distributions to the shareholders of the Company, disposals of the Initial Investors' shareholdings in the Company, and the occurrence of an IPO event of the Company, ECI Telecom Ltd. or the Borrower. The amounts of the CVR Payments, if any, are calculated based on an agreed waterfall and may be settled in cash or in certain other assets (including in shares of the Company), all in accordance with the specific terms set forth in the CVR Agreements. Immediately prior and subject to Admission, the rights of the CVR Holders under the CVR Agreements will be settled through the issuance of ordinary shares of the Company to the CVR Holders.

(b) *Waterfall*. Entitlement of the CVR Holders to receive the CVR Payments and the amount thereof is determined pursuant to an agreed waterfall as between the shareholders of the Company and the CVR Holders, taking into account, among other factors, the preference amounts of Argentem Creek and the Initial Investors pursuant to the Company's articles of association.

(c) *Information Rights*. Any CVR Holder that holds at least 33% of the total interests under the CVR Agreements is entitled to certain information, access and inspection rights, including certain rights to receive the same information as provided to Argentem Creek pursuant to the terms of the IRA.

(d) *Participation Right*. Each CVR Holder is entitled to participate in any future issuance of new securities (subject to customary exceptions) in the Company, ECI Telecom Ltd. or the Borrower on the same terms and conditions applicable to such financing round, under such terms as set forth in the CVR Agreements.

(e) *Company Guarantee*. The Company has agreed to guarantee the obligations of the Borrower under the CVR Agreements, in accordance with the terms set forth therein.

(f) *Transferability*. Each CVR Holder has the right to assign or otherwise transfer any of its rights (in whole or in part) under the CVR Agreement, independently of any assignment or transfer of its rights and obligations under the Senior Facility, subject to the terms set forth in the CVR Agreements.

12. BANKING FACILITIES

12.1 Senior Facilities Agreement

On 14 March 2018, the Borrower (as defined below) and other parties entered into a credit agreement (the "**Credit Agreement**") with Promontoria Holding 206 B.V. as agent (the "**Agent**") and security agent (the "**Security Agent**"). The Credit Agreement provides for a $153.0 million term loan facility (the "**Senior Facility**").

The borrower under the Credit Agreement is ECI Telecom Holdings B.V. (the "**Borrower**"). The Senior Facility is jointly and severally guaranteed on a senior secured basis by the Company, ECI Telecom Ltd., ECI Telecom Holdings B.V., ECI Telecom (UK) Limited, ECI (GMBH), ECI Inc., ECI (PH), Inc., ECI 2005 LLC and ECI Costa Rica S.A. (collectively, the "**Guarantors**"). Borrowings under the Senior Facility and the related guarantees are secured by first ranking liens on substantially all the assets of the Borrower and the Guarantors.

The Senior Facility was fully drawn on the closing of the Credit Agreement on 29 March 2018 (the "**Closing Date**") and was used primarily to refinance existing indebtedness of ECI Telecom Ltd. and its subsidiaries.

The Senior Facility bears cash interest at a rate per annum equal to LIBOR, and subject to a 1.00% floor, plus a margin of 4.50%, plus payment-in-kind interest at a rate of 8.50%.

The Senior Facility matures 60 months following the Closing Date and the Senior Facility amortises in accordance with the following schedule

Repayment Date	Repayment Instalment
36 Months from the Closing Date	1%
39 Months from the Closing Date	1%
42 Months from the Closing Date	1%
45 Months from the Closing Date	1%
48 Months from the Closing Date	1.5%
51 Months from the Closing Date	1.5%
54 Months from the Closing Date	1.5%
57 Months from the Closing Date	1.5%
60 Months from the Closing Date	90%

Subject to certain conditions (including payment of a prepayment price and make-whole amount, as applicable), the Borrower may voluntarily prepay the Senior Facility by giving prior notice to the Agent.

The Borrower is required to make mandatory prepayments of the Senior Facility with: (i) net cash proceeds from certain asset sales (subject to reinvestment rights); (ii) insurance and condemnation proceeds; (iii) certain equity issuance proceeds, and (iv) up to 50% of Excess Cash Flow, with a reduction to 25% and elimination of the requirement when Adjusted Leverage is less than 4.00:1.00 and 3.50:1.00, respectively. In addition, the Credit Agreement requires a mandatory prepayment of the Senior Facility if the Company or one of its subsidiaries conducts an initial public offering, with an amount of up to $30.0 million of such equity proceeds after the initial $25.0 million of equity proceeds to be applied in prepayment of the Senior Facility. Certain prepayment fees are payable in connection with the mandatory prepayment events (including payment of a prepayment price and make-whole amount, as applicable).

Any prepayment of the Senior Facility may be subject to payment of a break cost, depending on the time of prepayment.

The Credit Agreement also contains a change of control provision, which if triggered, entitles a Lender to require all amounts payable under the Senior Facility to that Lender to become immediately due and payable (including payment of the applicable prepayment price) and any undrawn commitment to be cancelled.

The Credit Agreement requires the Group to observe certain customary affirmative covenants, subject to certain agreed exceptions. The Credit Agreement also contains customary information and negative covenants, subject to certain agreed exceptions, applicable to the Guarantors and, in the case of a holding company covenant, the Company. In this respect, the financial and operating performance of ECI Telecom Ltd. and its subsidiaries is monitored by financial covenants which require such entities to ensure that Interest Cover, Adjusted Leverage, Adjusted EBITDA, Capital Expenditures and aggregate R&D Expenditures are not more or less than certain limits and for certain periods as set out in the table below:

Financial or operating metric	Limit	Period
Interest Cover	No less than 1.75:1.00	Each 12 month period ending on or about the last day of 31 March 2018 and 30 June 2018
	No less than 2.00:1.00	Each 12 month period ending on or about the last day of 30 September 2018, 31 December 2018, 31 March 2019, 30 June 2019, 30 September 2019 and 31 December 2019
	No less than 2.50:1.00	Each 12 month period ending on or about the last day of each financial quarter after 31 December 2019 to 31 December 2022 (inclusive)
Adjusted Leverage	No higher than 4.75:1:00	Each 12 month ending on or about the last day of 31 March 2018 and 30 June 2018
	No higher than 4.50:1:00	Each 12 month period ending on or about the last day of 30 September 2018 and 31 December 2018
	No higher than 4.25:1:00	Each 12 month period ending on or about the last day of 31 March 2019 and 30 June 2019
	No higher than 4.00:1.00	The 12 month period ending on or about the last day of 30 September 2019
	No higher than 3.50:1:00	Each 12 month period ending on or about the last day of each financial quarter after 30 September 2019 to 31 December 2022 (inclusive)
Adjusted EBITDA	No less than $44.0 million per year increasing to $53.0 million, $58.0 million, $62.0 million and $65.0 million per year, over the term of the Senior Facility	December 2018–December 2023
Capital Expenditures	Not more than $9.0 million or 2.5% of the gross revenue of the Group as set out in the financial statements	Each financial year.
Aggregate R&D Expenditures	Not more than $75.0 million, or if higher an amount equal to 19% of the gross revenues of the Group as set out in the annual financial statements for that financial year.	Each financial year.

The Borrower may request in the last month of any financial year, to increase the maximum aggregate R&D Expenditures in respect of a following financial year to 20% of the gross revenues of the Group, subject to the consent of the Majority Lenders (as defined in the Credit Agreement).

Under certain circumstances and conditions, ECI Telecom Ltd. may remedy non-compliance with certain financial covenants by using proceeds of equity injections by its shareholders.

As at 30 June 2018, the outstanding amount under the Senior Facility was $153.0 million (excluding accrued PIK interest of $3.746 million).

On 18 September 2018, the Borrower, the Company and ECI Telecom Ltd. entered into a letter of intent (the "**LOI**") with the Agent to, among other things, allow for an additional prepayment under the Senior Facility of $35 million.

The following terms are defined in the Credit Agreement and generally have the following meanings:

- "**Excess Cash Flow**" means the operating cash flow of the Group less certain deductions;
- "**Interest Cover**" means the ratio of EBITDA (as provided in the Credit Agreement) to certain net finance charges for a particular period;
- "**Adjusted Leverage**" means the ratio of borrowings to Adjusted EBITDA for a particular period;
- "**Adjusted EBITDA**" means earnings before interest, tax, depreciation and amortisation as adjusted for acquisitions and dispositions in the manner specified in the Credit Agreement;
- "**Capital Expenditures**" means expenditures on physical, property, plant and equipment which in accordance with accounting principles is treated as capital expenditure; and
- "**R&D Expenditures**" means the amount equal to gross expenses incurred in relation to research and development costs.

13. LITIGATION

There are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened of which the Company is aware) during the twelve months preceding the date of this Registration Document, which may have, or have had in the recent past, a significant effect on the Company's and/or the Group's financial position or profitability.

14. RELATED PARTY TRANSACTIONS

For each of the financial years ended 31 December 2015, 2016 or 2017 and the six months ended 30 June 2018, the Company has not entered into any transactions with related parties save as disclosed in Note 26 of the financial information set out in Sections B and C of Part 9: "*Historical Financial Information*".

On 17 September 2018, Global Village Advisory Ltd. ("**GVA**"), Swarth Investments Inc. ("**Swarth**") and certain affiliates and ECI Telecom Ltd., entered into a Termination of Instruments Agreement (the "**Termination of Instruments Agreement**"). The principal purpose of the Termination of Instruments Agreement is to terminate the management services agreement between ECI Telecom Ltd. and GVA and to release certain guarantees previously provided by Swarth and certain affiliates, to third parties on behalf of ECI Telecom Ltd., all subject to the consummation by the Company of a public offering and receipt of certain required third party approvals. The Termination of Instrument Agreement will terminate if third parties approvals are not obtained or a public offering is not consummated, in each case by 31 March 2019.

Except as described above, the Company has not entered into any related party transactions since 30 June 2018 up until the date of this Registration Document.

15. NO SIGNIFICANT CHANGE

There has been no significant change in the financial or trading position of the Group since 30 June 2018, the date to which the last audited consolidated accounts of the Group was prepared.

16. CONSENTS

Somekh Chaikin, Certified Public Accountants (Isr.), a member firm of KPMG International, has given and has not withdrawn its written consent to the inclusion of the accountant's report in Section A of Part 9: "*Historical Financial Information*", in the form and context in it appears and has authorised the contents of that part of this Registration Document which comprises its reports for the purposes of Rule 5.5.3R(2)(f) of the Prospectus Rules.

A written consent under the Prospectus Rules is different from a consent filed with the U.S. Securities and Exchange Commission under Section 7 of the U.S. Securities Act. Somekh Chaikin, Certified Public Accountants (Isr.), a member firm of KPMG International, has not filed and will not be required to file a consent under Section 7 of the U.S. Securities Act.

17. GENERAL

The financial information contained in this Registration Document does not amount to statutory accounts within the meaning of section 434(3) of the Act.

18. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted) for a period of 12 months following the date of this Registration Document at the offices of Latham & Watkins (London) LLP, 99 Bishopsgate, London EC2M 3XF:

(a) the Articles;

(b) the audited historical consolidated financial information of the Group in respect of the financial years ended 31 December 2017, 2016 and 2015 and the six months ended 30 June 2018 together with the related accountant's report from Somekh Chaikin, Certified Public Accountants (Isr.), a member firm of KPMG International, which is set out in Part 9: "*Historical Financial Information*";

(c) the consent letter referred to in "Consents" in Section 16 above; and

(d) this Registration Document.

Dated: 20 September 2018

Part 11
DEFINITIONS

The following definitions apply throughout this Registration Document unless the context requires otherwise:

Term	Definition
"**102 Trustee**"	a trustee selected by the Board for purposes of Section 102 Awards;
"**2008 Plan**"	the ECI Telecom Ltd. 2008 Share Incentive Plan;
"**2014 Plan**"	the Company's 2014 Share Option Plan;
"**2016 Mezzanine Agreement**"	as defined in Section 7 of Part 8: "*Operating and Financial Review*" of this Registration Document;
"**2016 Term Loan**"	as defined in Section 7 of Part 8: "*Operating and Financial Review*" of this Registration Document;
"**Act**"	the UK Companies Act 2006, as amended;
"**Adjusted EBITDA**"	earnings before interest, tax, depreciation and amortisation as adjusted for acquisitions and dispositions in the manner specified in the Credit Agreement;
"**Adjusted Leverage**"	the ratio of borrowings to Adjusted EBITDA for a particular period;
"**Agent**"	Promontoria Holding 206 B.V.;
"**Amendment**"	amendment to the Investment Law;
"**APAC**"	Asia-Pacific;
"**Argentem Creek**"	Pathfinder Strategic Credit LP;
"**Argentem Creek Preference Amount**"	a pre-determined amount calculated pursuant to a formula set forth in the IRA;
"**Articles**"	the articles of association of the Company expects to adopt;
"**Ashmore**"	Ashmore Investment Management Limited as investment manager for certain funds;
"**Awards**"	options, shares or RSUs awarded under the Existing Plan;
"**Banks**"	financial institutions with which the Company maintains customer debt factoring arrangements;
"**Board**"	the board of directors of the Company;
"**Borrower**"	ECI Telecom Holdings B.V.;
"**CAGR**"	compound annual growth rate;
"**CALA**"	Caribbean and Latin America;
"**Capital Expenditures**"	expenditures on physical, property, plant and equipment which in accordance with accounting principles is treated as capital expenditure;
"**Closing Date**"	29 March 2018;
"**Company**"	ECI Telecom Group Ltd.;
"**Contingent Value Rights**"	payment entitlements payable upon the occurrence of corporate transactions as defined in the respective credit agreements;
"**Controlling Shareholder**"	has the meaning given in the Israeli Companies Law and means a shareholder with the ability to direct the activities of a company, other than by virtue of being an office holder;

“**Credit Agreement**”	a credit agreement dated 14 March 2018, and entered into between the Borrower and other parties;
“**CVR Agreements**”	contingent value rights deeds dated 29 March 2018 and entered into by the CVR Holders;
“**CVR Holders**”	the Borrower, the Company and each of the lenders under the Senior Facility;
“**CVR Payments**”	entitlement of CVR Holders to receive certain payments (in cash and/or in kind) from the Borrower as set out in the CVR Agreements;
“**CY**”	Calendar year;
“**Debt Refinancing**”	refinancing of the outstanding debt by the Company;
“**Defence and Security**”	includes ministry of defence, secret service and national/board guards;
“**Directors**”	the directors of the Company from time to time;
“**Drag Along Right Date**”	the date that is three months following the Marketing Right Date;
“**DTRs**”	Disclosure Guidance and Transparency Rules of the FCA;
“**Eastcom**”	Eastern Communications Co. Ltd;
“**ECL**”	expected credit losses;
“**EEA**”	the European Economic Area;
“**EMEA**”	Europe, the Middle East and Africa;
“**EPS**”	earnings per share;
“**EU**”	the European Union;
“**Excess Cash Flow**”	the operating cash flow of the Group less certain deductions;
“**Executive Directors**”	the executive Directors of the Company;
“**Existing Plan**”	2014 Share Incentive Plan;
“**FATCA**”	the U.S. Foreign Account Tax Compliance Act, as amended;
“**FCA**”	the UK Financial Conduct Authority;
“**First Addendum**”	first addendum to the Israeli Securities Law;
“**Financial Institutions**”	certain banks and insurance companies with which the Company maintains short-term deposits;
“**Flex**”	Flex Ltd. (formerly Flextronics Telecom Systems Limited);
“**Flextronics**”	Flextronics (Israel) Ltd.;
“**FSMA**”	the Financial Services and Markets Act 2000, as amended;
“**FTEs**”	full time equivalent employees;
“**FSU**”	former soviet union region;
“**FX**”	foreign exchange;
“**FY15**”	the financial year ended 31 December 2015;
“**FY16**”	the financial year ended 31 December 2016;
“**FY17**”	the financial year ended 31 December 2017;
“**Guarantors**”	each of Company, ECI Telecom Ltd., the Borrower, ECI Telecom (UK) Limited, ECI (GMBH), ECI Inc., ECI (PH), Inc., ECI 2005 LLC, ECI Costa Rica S.A.;
“**Group**”	the Company and its subsidiary undertakings;

"**GST**"	Goods and services tax;
"**Histadrut**"	Histadrut—General Federation of Labor in Israel (the largest trade union federation in Israel);
"**Holding Period**"	a period of two years as of the date of the grant of the Award under the Existing Plan;
"**IAS 39**"	IAS 39, *Financial Instruments: Recognition and Measurement;*
"**ICIC**"	Israeli Credit Insurance Company;
"**IFRS**"	International Financial Reporting Standards, as adopted by the European Union;
"**IFRS 9 (2014)**"	IFRS 9 (2014), *Financial Instruments*;
"**IFRS 15**"	IFRS 15, *Revenues from contracts with customers*;
"**IFRS 16**"	IFRS 16, *Leases*;
"**IIA**"	Israel Innovation Authority;
"**IME**"	Israeli Ministry of Economy;
"**Independent Directors**"	three independent directors appointed to the Board;
"**Initial Investors**"	the Borrower and Viola Credit;
"**Innovation Law**"	Encouragement of Research, Development and Technological Innovation in the Industry Law 5744-1984 (formerly known as the Encouragement of Industrial Research and Development Law 5744-1984);
"**Interest Cover**"	the ratio of EBITDA (as provided in the Credit Agreement) to certain net finance charges for a particular period;
"**Investment Law**"	Law for the Encouragement of Capital Investments, 1959;
"**IRA**"	the investor's rights agreement dated 29 March 2018 and entered into among the Company, ECI Telecom Ltd., Argentem Creek, Viola Credit and the Swarth Group;
"**IRS**"	United States Internal Revenue Service;
"**Israeli Companies Law**"	Israeli Companies Law 5759-1999;
"**Israeli Patent Law**"	Israeli Patent Law, 5727-1967;
"**Israeli Securities Law**"	Israeli Securities Law, 5728-1968;
"**Legal Claims**"	legal claims filed against the group companies or pending claims against the Company;
"**Lending Funds**"	a group of private venture lending funds in Israel'
"**LIBOR**"	London Interbank Offered Rate;
"**Liquidity Event**"	an IPO (except to the extent proceeds from such IPO are retained in full by ECI Telecom Ltd. and no change of control will occur), or under certain circumstances, mergers, acquisitions and change of control transactions;
"**Listing Rules**"	the listing rules of the FCA made under section 74(4) of the FSMA;
"**London Stock Exchange**"	London Stock Exchange plc;
"**Major Shareholder**"	ECI Holding (Hungary) Kft.;
"**Market Abuse Regulation**"	Regulation (EU) 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse;

"**Marketing Right Date**"	the earlier of (i) 30 June 2019 and (ii) the date on which there shall be a breach of the IRA;
"**Member State**"	member state of the EEA;
"**Negev**"	Negev Telecom Ltd.;
"**New Contingent Value Rights**"	additional payment entitlements pursuant to the new Senior Facility upon occurrence of a Liquidity Event;
"**New Israeli Shekels**"; "**NIS**"; "**ILS**" .	the lawful currency of the State of Israel;
"**NOLs**"	net operating losses;
"**Non-Executive Directors**"	the non-executive Directors of the Company;
"**NRENs**"	national research and education networks;
"**OECD BEPS**"	OECD Base Erosion and Profit Shifting Action Plan;
"**Official List**"	the Official List of the FCA;
"**Ordinance**"	Israeli Income Tax Ordinance, 1961;
"**Packet**"	the unit of data that is routed between an origin and a destination on the Internet or any other packet-switched network;
"**PCAOB**"	the Public Company Accounting Oversight Board (United States);
"**PIK**"	payment-in-kind;
"**Preferred Income**"	the Company's income entitled to certain benefits under the Investment Law;
"**Preferred Technology Income**"	income derived from a Preferred Technology Enterprise or a Special Preferred Technology Enterprise;
"**Prospectus**"	a prospectus approved by the FCA as a prospectus prepared in accordance with the Prospectus Rules made under section 73A of the FSMA;
"**Prospectus Directive**"	Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU;
"**Prospectus Directive Regulation**" . . .	E.U Prospectus Directive Regulation 2004/809/EC;
"**Prospectus Rules**"	the prospectus rules of the FCA;
"**qualified institutional buyers**" or "**QIBs**"	has the meaning given by Rule 144A;
"**Qualified Investors**"	persons who are "qualified investors" within the meaning of Article 2(l)(e) of the Prospectus Directive;
"**Registration Document**"	this registration document;
"**R&D Expenditures**"	the amount equal to gross expenses incurred in relation to research and development costs;
"**Regulation S**"	Regulation S under the U.S. Securities Act;
"**Relationship Agreement**"	the relationship agreement entered into between the Company and the Major Shareholder as described in Section 4 of Part 6: "*Directors, Senior Managers and Corporate Governance—Relationship Agreements with the Major Shareholder*";
"**Relevant Member State**"	Member States that have implemented the Prospectus Directive;
"**RoW**"	Rest of the world;

"**RSUs**"	restricted stock units;
"**Rule 144A**"	Rule 144A under the U.S. Securities Act;
"**Section 14**"	Section 14 of the Severance Pay Law, 1963;
"**Security Agent**"	Promontoria Holding 206 B.V.;
"**Section 102 Awards**"	Awards granted pursuant to Section 102 of the Ordinance;
"**Senior Facility**"	a $153.0 million term loan facility;
"**Senior Manager**"	each member of the senior management team of the Company;
"**Service Providers**"	includes CSPs, mobile/fixed network operators and data centre connectivity providers;
"**Swarth Group**"	a privately owned investment vehicle;
"**Takeover Code**"	City Code on Takeovers and Mergers;
"**Tier 1**", "**Tier 2**", "**Tier 3**"	A Tier 1 carrier possesses a network in which it is the sole operator (it has a direct connection to the Internet and the networks it uses to deliver voice and data services). A Tier 2 carrier operates the same way, except for that it may get a portion of its network from a Tier 1 operator ("peering"). Tier 3 refers to a carrier who gets 100% of its network through a Tier 1 or Tier 2 operator, with no direct-access of its own;
"**UK Corporate Governance Code**"	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time;
"**$**"; "**USD**"; "**$**"; "**dollar**"	lawful currency of the United States of America;
"**U.S. GAAS**"	Auditing standards generally accepted in the United States of America;
"**U.S. Securities Act**"	the U.S. Securities Act of 1933, as amended;
"**Utilities and Governments**"	Includes power, water, oil and gas, transportation, government and municipalities and NRENs;
"**VAT**"	Value-added tax; and
"**Viola Credit**"	certain funds affiliated with Viola Credit group.

Part 12
GLOSSARY

The following terms apply throughout this Registration Document unless the context requires otherwise:

"2G"; "3G"; "4G"; "5G"	Second; Third; Fourth; Fifth generation mobile networks;
"480p"; "720p"; "1080p"	480; 720; 1080 progressive scan;
"4K"	Ultra-High Definition ("**UHD**");
"Access"	broadband access products, which operate closer to the customer premises;
"AI"	Artificial Intelligence;
"API"	Application Programming Interface;
"Apollo"	the Apollo Optical family of products;
"AR"	Augmented Reality;
"ATM"	asynchronous transfer mode switches;
"BSS"	Business Support Systems;
"CDN"	Content Delivery Network;
"CPE"	Customer Premises Equipment;
"CSPs"	communication service providers;
"DPI"	Deep-Packet-Inspection;
"E2E"	everything to everyone;
"EB"	Exabyte;
"eMBB"	Enhanced Mobile Broadband;
"end-customer"	the ultimate user of the Group's products or solutions;
"Ethernet"	a system for connecting a number of computer systems to form a local area network, with protocols to control the passing of information and to avoid simultaneous transmission by two or more system;
"ETSI"	European Telecommunications Standards Institute;
"EMS"	Electronics manufacturing service;
"FC"	Fibre Channel;
"Fibre Channel"	is a computer networking technology that is used to transfer data between one or more computers at very high speeds;
"GbE"	Gigabit Ethernet;
"GB/s"	Gigabits per second;
"HD"	High definition;
"IaaS"	Infrastructure as a Service;
"ICT"	Information and Communication Technology;
"IoT"	Internet of Things;
"IP"	Intellectual Property;
"IP/MPLS"	IP multi-protocol label switching;
"IT"	Information Technology;
"Layer 0"	the photonics layer of the OSI model, more specifically, DWDM is considered as the Layer 0 of the OSI model;

"Layer 1"	the physical layer of the OSI model consisting of the electronic circuit transmission technologies of a network;
"Layer 2"	the data-link layer of the OSI model that transfers data between adjacent network nodes in a wide area network (WAN) or between nodes on the same local area network (LAN) segment;
"Layer 3"	the network layer of the OSI model that is responsible for routing data;
"M2M"	machine-to-machine;
"MANO"	ETSI Management and Orchestration;
"MEC"	Multi-Access Edge Computing;
"Mercury"	the Mercury family of products based on NFV solutions;
"MMTC"	Massive Machine Type Communications;
"MPLS"	Multiprotocol Label Switching;
"MPLS-TP"	Multiprotocol Label Switching—Transport Profile;
"MSAN"	Multiservice Access Node;
"MSO"	Multiple System Operators;
"MSPP"	multi-service provisioning platforms;
"Muse"	the Muse modular suite of applications;
"Muse™ Compass"	the cybersecurity solutions offered under the Group's "Muse™ Compass" brand;
"Muse™ Orchestration"	the SDN applications offered under the Group's Muse™ Orchestration brand;
"NE"	network elements;
"Neptune"	the Neptune Packet-Optical family of products;
"network slicing"	a specific form of virtualisation that allows multiple logical networks to run on top of a shared physical network infrastructure, allowing changing traffic priorities;
"NFV"	Network Function Virtualisation;
"NMS"	network management system;
"NRENs"	national research and educational networks;
"OEM"	original equipment manufacturer;
"OSI Model"	the Open Systems Interconnectional model that characterises and standardises the communication functions of a telecommunication system;
"OSS"	Operations Support Systems;
"OTN"	Optical Transport Network;
"OTT"	Over-the-top;
"PaaS"	Platform as a Service;
"POP"	point-of-presence;
"PPE"	property, plant and equipment;
"SaaS"	Software as a Service;
"SDH"	Synchronous Digital Hierarchy;
"SDN"	Software-Defined Networking;

“**SONET**”	Synchronous Optical Networking;
“**TAM**”	Total Addressable Market;
“**Tbit/s**”	terabytes per second;
“**TDM**”	Time-division Multiplexing;
“**URLLC**”	Ultra-Reliable Low-Latency Communications;
“**VNF**”	Virtualised Network Functions;
“**VoIP**”	Voice over Internet Protocol;
“**VR**”	virtual reality;
“**WDM**”	wavelength division multiplexing;
“**wireless backhaul**”	the use of wireless communications systems to get data from an end user to a node in a major network; and
“**XDM**”	multi-service provision platforms.