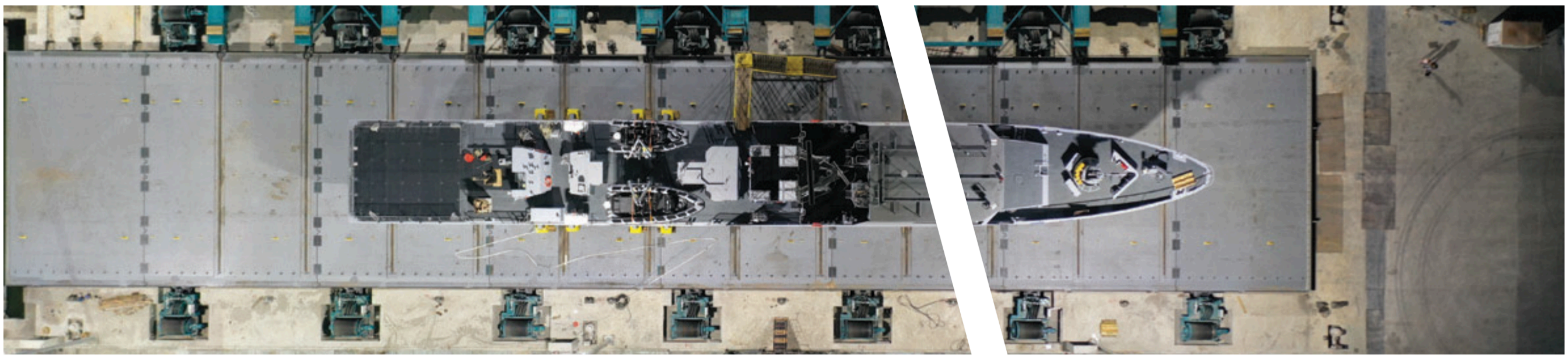
Board of Directors Report as of March 31, 2026



Israel Shipyards Industries Ltd.
("the Company")

Board of Directors Report on the State of the Corporation's Affairs as of March 31, 2026

The Company's Board of Directors is pleased to submit the Board of Directors Report on the state of the corporation's affairs as of March 31, 2026, and for the three-month period ended on that date (hereinafter: the **"Report Period"**). The report reviews the main changes in the Company's activities that occurred during the report period and up to its publication date. The report was prepared in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter: the **"Securities Regulations"**), the financial data in this review refer to the Company's consolidated reports, prepared according to International Financial Reporting Standards (IFRS).

1. General

Until the end of February 2026, the first quarter of 2026 was characterized by a continued gradual return to routine and a moderation of the effects of the 'Iron Swords' war. On February 28, 2026, Operation 'Lion's Roar' began with a combined attack by Israel and the United States against targets in Iran, which again led to an escalation in Israel's security situation, followed by a military conflict on the northern front with the terrorist organization Hezbollah in Lebanon. As a result of the above, significant volatility began in energy prices, including oil prices and volatility in foreign exchange rates. At the beginning of April 2026, a temporary ceasefire was declared between the United States and Iran, and parallel to it, a ceasefire was also declared in the fighting zone in Lebanon, and these have been extended several times and are still in effect as of the date of this report. Despite the above, as of the date of this report, the security tension in both theaters as mentioned remains and there is a fear of renewed escalation.

In the construction materials segment, during March 2026, there was a decrease in cement import volumes to Israel as a result of the security situation[1] which moderated after the report period in April 2026. Revenues of the construction materials segment in the report period decreased by approximately 15% compared to the corresponding period last year. The Company estimates that the decrease is affected, among other things, by the impact of Operation 'Lion's Roar' which led to a reduction in activity at construction sites in Israel during the operation. Despite the decrease in revenues as mentioned, profitability in the segment was maintained.

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[1] Cargo movement report in Israeli ports in April 2026 (17.5.26) — Cement unloading at automatic facilities, Shipping and Ports Authority website - https://www.gov.il/BlobFolder/reports/cargo-.0426/he/%D7%9E%D7%9C%D7%9C%D7%9C%D7%98%98%20200426.xlsx

In light of the existing security uncertainty, including the possibility of further escalation, as of the date of the report, the Company is unable to accurately estimate the full extent of the damage and additional future effects of the security situation's impact on its results.

During the report period, the revenues of the subsidiary - Israel Shipyards Ltd., increased to a total of NIS 130 million, compared to a total of NIS 54 million in the corresponding period last year due to progress in ship production projects, among others - the Reshef project[2], which entered an advanced stage and is more significantly reflected in the segment's revenues (where the years 2027-2028 are expected to be the peak years of the project) as well as the start of the execution of a project to supply vessels and various services for a government customer abroad in a volume of approximately USD 62 million, which the Company reported during the report period[3].

In port activities, revenues increased in the report period by 12% compared to the corresponding period, with the main growth resulting from the return to activity of an additional pier. The unloading was carried out parallel to the test-run activities of the flagship project – the establishment of the silos facility: the largest infrastructure project in the group, which is expected to be the most innovative and efficient in Israel in terms of unloading rate and the variety of products that can be unloaded through it. Silo unloading activity will allow the port to expand its fields of activity to the unloading of grain and grain products in innovative automatic facilities.

The diversification and distribution strategy of the Company's business segments and revenue sources continued to prove itself during the report period as well, and helped hedge risks and negative impacts in any segment, in light of revenues and growth in another segment.

The Company has four areas of activity reported as business segments in its financial reports as of March 31, 2026. For further details, see the Company's Periodic report for 2025, as published by the Company on March 18, 2026 (Reference No.: 2026-01-023733) (this information constitutes inclusion by way of reference) (hereinafter: the "**2025 Periodic report**").

a. Shipyard Segment - within which the Group is engaged in the design and manufacture of military and civilian vessels, providing repair and maintenance services for vessels and design. In addition, the segment includes providing various services to oil and gas production companies and large onshore (metal) works, including the production of 'Itai' bodies - wheeled armored fighting vehicles. The activity is carried out through the subsidiary Israel Shipyards Ltd. (hereinafter: "**Israel Shipyards**").

b. Port Segment - within which the Group is engaged in operating a port and providing unloading services, including the start of operation of an innovative silo facility whose construction was recently completed. The activity is carried out through the subsidiary Israel Shipyards Port Ltd. (above and hereinafter: "**Israel Shipyards Port**") and also through M.I. Markavey Israel Ltd., which is engaged in providing land transport services by trucks and freight trains, among others for customers of Israel Shipyards Port.

c. Construction Materials Segment - within which the Group is engaged in the production, import, marketing and sale of products used in the construction industry including cement products, powders and adhesives, sealing and insulation materials, plasters,

[2] For further details see the Company's immediate report dated December 12, 2024 (Reference No. 2024-01-623882) (inclusion by way of reference).

[3] For further details see the Company's immediate report dated February 4, 2026 (Reference No. 2026-01-012540) (inclusion by way of reference).

gypsum products and acrylic paints. The activity is carried out through the subsidiaries and sub-subsidiaries Ciment I.S. Ltd. (hereinafter: "**Ciment**"), Prima Ciment Ltd. (hereinafter: "**Prima Ciment**"), Anat Ciment Ltd. (hereinafter: "**Anat Ciment**"), Nadir Paint Industries (1996) Ltd. (hereinafter: "**Nadir**") and ISCO TRADING SA (hereinafter: "**ISCO**").

d.

Maritime Transport Segment - within which the Group is engaged in the management and operation of general cargo ships of various types and sizes. The activity is carried out through subsidiaries of Israel Shipyards[4], which hold a fleet of 8 wholly-owned general cargo ships.

e. In addition, the Group has other activities that do not amount to an area of activity - mainly activity dealing with providing logistical services to companies in the field of gas drilling and investment in the field of developing drone interception solutions.

2. Interest Rate and Inflation Environment

As of January 2026, the Bank of Israel interest rate stood at 4% compared to an annual average interest rate of 4.4% in 2025. After the balance sheet date, close to the date of publication of the report, the Monetary Committee of the Bank of Israel decided, on May 25, 2026, to reduce the interest rate in the economy by 0.25%, to a level of 3.75%. According to the forecast of the Research Division of the Bank of Israel from March 30, 2026, the average interest rate in the first quarter of 2027 is expected to stand at 3.5% - 3.75%.

The Group finances its activities from cash balances at its disposal, from commercial papers and from short and long-term bank credit. As of March 31, 2026, approximately NIS 531 million of the Group's bank credit is variable interest credit, most of which is linked to the Prime rate. An increase or decrease of 1% in the Prime interest rate will increase or decrease the Company's annual financing expenses for these loans by a total of approximately NIS 5.3 million on an annual basis. It should be noted that the Company financed a significant part of the investment in silos through short-term credit, and that during the report period the Company began the test-run stage of the silos. The Company plans to convert part of the short-term credit in the future by taking a long-term loan, depending on the volume of silo activity.

It is clarified that the assumptions, estimates and data detailed above regarding the possibility of the impact of macroeconomic data, changes in interest rates including extensive consequences for many sectorial fields and different geographical regions in the country, significant damage to all relevant aspects of life in the State of Israel and its residents, the effects of the security situation on the Company's activity, are forecasts, evaluations and estimates and constitute "forward-looking information", as this term is defined in the Securities Law, based on information existing in the Company, and including estimates, evaluations or intentions of the Company, as of the date of the report. The actual effects may be different from the results estimated or expected by the Company due to events that are not under the Company's control, including the scope of the war, the security situation, Israel's political situation, the theaters of combat and its duration and its impact on the functioning of the economy and the home front, changes in the market situation and regulatory changes.

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[4] Wholly owned subsidiaries, registered in Liberia and Antigua and Barbuda, which are holding companies for the purpose of operating and managing the ships they own.

3. Following is a table of the main financial data from the Company's profit and loss statements as presented in its financial reports (in thousands of NIS):

Item	For the three months ended March 31, 2026	For the three months ended March 31, 2025	For the year ended December 31, 2025
Revenues	417,302	385,121	1,577,474
Gross profit	53,298	42,987	171,278
Operating profit	19,599	16,812	40,484
Financing expenses, net	(5,358)	(591)	(8,231)
Profit before taxes	14,550	16,221	34,316
Net profit for the period	10,638	11,359	26,830
Net profit for the period attributable to the owners of the company	10,499	11,665	27,310

Financial data from the Company's statement of financial position as presented in its financial reports (in thousands of NIS):

Item	As of March 31, 2026	As of March 31, 2025	For the year ended December 31, 2025
Total balance sheet	2,155,831	2,085,213	2,003,533
Equity attributable to the owners of the company	937,565	976,768	943,700
Total equity	943,147	983,155	949,137

4. Financial Position

Following are main data from the company's balance sheet items (in thousands of NIS):

Item	As of March 31, 2026	As of March 31, 2025	As of December 31, 2025	Change relative to annual in thousands of NIS	Change relative to annual in %	Rate of change relative to the corresponding period last year (%)	Board of Directors' explanation
Cash and cash equivalents	358,233	493,953	321,289	36,944	11.5%	(27.5%)	The increase in the cash balance and short-term investments by approx. 37 million NIS during the period arises mainly from receiving payments for projects in the shipyard segment.

Item	As of March 31, 2026	As of March 31, 2025	As of December 31, 2025	Change relative to annual in thousands of NIS	Change relative to annual in %	Rate of change relative to the corresponding period last year (%)	Board of Directors' explanation
Short-term investments	56,671	52,893	56,013	658	1.2%	7.1%	
Trade receivables	328,511	313,535	232,283	96,228	41.4%	4.8%	The increase in the trade receivables balance results mainly from the completion of trade receivables factoring transactions in the construction materials segment performed in the last quarter of 2025 in the amount of approx. 141 million NIS.
Revenues receivable from construction contract works	29,719	56,928	43,563	(13,844)	(31.8%)	(47.8%)	The decrease in revenues receivable is attributed to the completion of projects in the shipyard segment against payment milestones.
Current taxes receivable	13,106	5,416	9,286	3,820	41.1%	142%	The increase in current taxes receivable is due to tax payments made during the period.
Debtors and debit balances	95,095	25,217	60,566	34,529	57%	277%	The increase arises mainly in the shipyard segment due to payment of advances to suppliers in the Reshef project.
Financial derivatives	-	13,781	-	-	-	(100%)	The change relative to the corresponding period due to a decrease in the fair value of foreign currency hedging transactions.
Inventory	131,867	115,249	132,930	(1,063)	(0.8%)	14.4%	The increase in inventory relative to the corresponding period arises mainly from the shipyard segment due to procurement for the Reshef project.
Total current assets	**1,013,202**	**1,076,972**	**855,930**				
Customers and revenues receivable	4,418	9,162	9,213	(4,795)	(52%)	(52%)	
Investment in financial instruments	31	79	31	-	-	(60.7%)	

Item	As of March 31, 2026	As of March 31, 2025	As of December 31, 2025	Change relative to annual in thousands of NIS	Change relative to annual in %	Rate of change relative to the corresponding period last year (%)	Board of Directors' explanation
Investment in companies accounted for using the equity method	5,056	-	-	5,056	-	-	Investment made during the period in partnership with a 3rd party, engaged in the operation of a cement ship.
Net fixed assets	940,491	817,388	931,706	8,785	0.9%	15.1%	The increase in the fixed assets balance compared to the end of the previous year is mainly due to the investment in establishing the silos facility in the Port segment as well as investment in renovating buildings in the shipyard segment, net of the periodic depreciation in the group.
Intangible assets	40,822	46,739	41,806	(984)	(2.4%)	(12.7%)	
Goodwill	34,126	35,135	34,126	-	-	(2.9%)	
Right-of-use asset	111,370	91,961	122,052	(10,682)	(8.8%)	21.1%	The decrease relative to the end of the year arises from periodic depreciation.
Deferred taxes	6,315	7,777	8,669	(2,354)	(27.1%)	(18.8%)	
Total non-current assets	**1,142,629**	**1,008,241**	**1,147,603**				
Total assets	**2,155,831**	**2,085,213**	**2,003,533**				
Credit from banking and other corporations	279,622	254,858	162,529	117,093	72%	9.7%	The increase stems from working capital financing in the construction materials segment (given the factoring transaction at the end of the previous year), as well as an increase in credit in the Port segment for the continued construction of the silos facility.
Commercial papers	150,000	50,000	150,000	-	-	200%	
Current maturities of lease liabilities	37,917	23,199	40,345	(2,428)	(6.0%)	63.4%	
Liabilities to suppliers and service providers	209,400	168,542	160,987	48,413	30.1%	24.2%	The increase in suppliers arises from procurement in the shipyard segment.
Payables and credit balances	79,941	76,897	93,226	(13,285)	(14.3%)	4.0%	The decrease relative to year-end arises mainly due to a decrease in the VAT payable balance because of the timing of invoice issuance to customers in the shipyard segment.

Item	As of March 31, 2026	As of March 31, 2025	As of December 31, 2025	Change relative to annual in thousands of NIS	Change relative to annual in %	Rate of change relative to corresponding period last year (%)	Board of Directors' explanation
Taxes payable	2,147	7,719	7,755	(5,608)	(72.3%)	(72.2%)	The decrease stems from payments to tax authorities during the period.
Provisions	5,514	6,354	4,610	904	19.6%	(13.2%)	
Financial derivatives	12,116	-	9,235	2,881	31.2%	-	The increase arises due to a change in the fair value of hedging transactions resulting from exchange rate changes during the period.
Liabilities for put option	-	1,300	-	-	-	(100%)	The change relative to the corresponding period arises due to the exercise of the option.
Liabilities for contingent consideration	3,300	31,000	3,300	-	-	(89.4%)	The change arises from a payment made during 2025.
Liabilities for construction contract works	144,881	237,792	115,257	29,624	25.7%	(39.1%)	The increase arises from a payment received in the shipyard segment.
Total current liabilities	**924,838**	**857,661**	**747,244**				
Long-term loans	152,944	110,600	161,541	(8,597)	(5.3%)	38.3%	The decrease arises from current repayments.
Lease liabilities	80,538	74,893	88,499	(7,961)	(9%)	7.5%	The decrease arises from current repayments.

Item	As of March 31, 2026	As of March 31, 2025	As of December 31, 2025	Change relative to annual in thousands of NIS	Change relative to annual in %	Rate of change relative to corresponding period last year (%)	Board of Directors' explanation
Liabilities for employee benefits, net	6,976	7,526	7,267	(291)	(4%)	(7.3%)	
Contingent consideration	4,100	-	4,100	-	-	-	
Deferred taxes	43,288	51,378	45,745	(2,457)	(5.4%)	(15.7%)	
Total non-current liabilities	**287,846**	**244,397**	**307,152**				
Equity	**943,147**	**983,155**	**949,137**				
Total	**2,155,831**	**2,085,213**	**2,003,533**				

5. Operating Results

Below are key figures from the Company's profit and loss report (in thousands of NIS):

Item and Note No.	For the 3-month period ended March 31, 2026	For the 3-month period ended March 31, 2025	For the 12-month period ended December 31, 2025	Board of Directors' Explanations
Revenue	417,302	385,121	1,577,474	The increase results mainly from an increase in the shipyard segment. This increase was offset by a decrease in the construction materials segment.
Cost of works	364,004	342,134	1,406,196	
Gross profit	**53,298**	**42,987**	**171,278**	The increase results mainly from the increase in revenue in the shipyard segment as mentioned and from the port segment, which was offset by a decrease in profit from the maritime transport segment.
Research and development expenses	(2,474)	(5)	(8,279)	The increase results from the start of operations of a dedicated company engaged in developing solutions in the field of intercepting UAVs — Aeronaut Systems Ltd.
Selling and marketing expenses	(9,350)	(8,094)	(32,446)	
General and administrative expenses	(21,875)	(20,834)	(88,225)	
Other income, net	-	2,758	(1,844)	Other income in the equivalent period included mainly insurance indemnity in the maritime transport segment.
Operating profit	**19,599**	**16,812**	**40,484**	
Other income	-	-	2,063	
Company's share in profits of companies accounted for using the equity method, net	309	-	-	
Financing income (expenses), net	(5,358)	(591)	(8,231)	The increase results from an increase in exchange rate difference expenses and interest expenses regarding leases. In addition, there was a decrease in interest income from bank deposits due to a decrease in the volume of deposits and also due to a decrease in the average interest rate.
Profit before income taxes	**14,550**	**16,221**	**34,316**	The decrease in profit before tax results from the impact of research and development expenses, other income, net, and financing expenses as mentioned above.
Income taxes	3,912	4,862	7,486	
Net profit	**10,638**	**11,359**	**26,830**	
Profit attributable to non-controlling interests	139	(306)	(480)	
Profit attributable to Company shareholders	**10,499**	**11,665**	**27,310**	

Profit before depreciation, financing, and tax (EBITDA) data by segments for the three months ended March 31 in 2026 and 2025 and for the year ended December 31, 2025 (in thousands of NIS):

Segment/Item in Profit and Loss Report	Revenue January - March 2026	Profit before depreciation, financing, and tax EBITDA January - March 2026	Profit Margin January - March 2026	Revenue January - March 2025	Profit before depreciation, financing, and tax EBITDA January - March 2025	Profit Margin January - March 2025	Revenue January - December 2025	Profit before depreciation, financing, and tax EBITDA January - December 2025	Profit Margin January - December 2025	Board of Directors' Explanations
Shipyard Segment	130,195	16,873	13%	54,383	2,201	4%	271,217	31,068	11%	The increase in revenue results from an increase in the progress rate of the Reshef project and from the start of execution of a project for the supply of vessels for a government customer abroad.
Port Segment	49,326	11,867	24%	43,842	8,064	18%	184,698	37,329	20%	The increase in revenue results from an increase in the quantity unloaded compared to the equivalent quarter due to the availability of an additional pier and also due to the start of trial runs of the silos facility. The increase in profitability compared to the equivalent period results from the increase in revenue and from a different mix of cargo unloading during the period.

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Segment/Item in Profit and Loss Report	Revenue January - March 2026	Profit before depreciation, financing, and tax EBITDA January - March 2026	Profit Margin January - March 2026	Revenue January - March 2025	Profit before depreciation, financing, and tax EBITDA January - March 2025	Profit Margin January - March 2025	Revenue January - December 2025	Profit before depreciation, financing, and tax EBITDA January - December 2025	Profit Margin January - December 2025	Board of Directors' Explanations
Construction Materials Segment	221,041	23,073	10%	262,080	22,210	8%	1,046,116	89,568	9%	The decrease in revenue results from a certain decrease in the quantity of cement sold during the report period, partly due to the impact of the 'Lion's Roar' operation. However, the profit margin increased due to an increase in the average selling price of cement, the impact of the shekel appreciation (which was reflected to a lesser extent due to hedging transactions carried out by the company in the period), and also due to the accounting impact of the renewal of the cement ship lease agreement. These impacts were partially offset by an increase in raw material prices and by dockings carried out for the cement ships during the report period.

Segment/Item in Profit and Loss Report	Revenue January - March 2026	Profit before depreciation, financing, and tax EBITDA January - March 2026	Profit Margin January - March 2026	Revenue January - March 2025	Profit before depreciation, financing, and tax EBITDA January - March 2025	Profit Margin January - March 2025	Revenue January - December 2025	Profit before depreciation, financing, and tax EBITDA January - December 2025	Profit Margin January - December 2025	Board of Directors' Explanations
Maritime Transport Segment	18,821	2,142	11%	26,448	8,061	30%	79,968	15,579	19%	The decrease in revenue results from a decrease in maritime transport prices compared to the equivalent period. Additional impacts were due to a change in the maritime trade area.

Segment/Item in Profit and Loss Report	Revenue January - March 2026	Profit before depreciation, financing and tax EBITDA January - March 2026	Profit Margin January - March 2026	Revenue January - March 2025	Profit before depreciation, financing and tax EBITDA January - March 2025	Profit Margin January - March 2025	Revenue January - December 2025	Profit before depreciation, financing and tax EBITDA January - December 2025	Profit Margin January - December 2025	Board of Directors' Explanations
										which led to a decrease in revenue during the journey period to the new area and winter weather hazards, which caused operational delays. In addition, the segment's revenue in the equivalent period included ship charter transactions for customers in the port segment. The decrease in profit stems from the decrease in transport prices as mentioned and because the equivalent period included other income regarding insurance indemnity.

Segment/Item in Profit and Loss Report	Revenue January - March 2026	Profit before depreciation, financing and tax EBITDA January - March 2026	Profit Margin January - March 2026	Revenue January - March 2025	Profit before depreciation, financing and tax EBITDA January - March 2025	Profit Margin January - March 2025	Revenue January - December 2025	Profit before depreciation, financing and tax EBITDA January - December 2025	Profit Margin January - December 2025	Board of Directors' Explanations
Other	3,796	(2,075)	(55%)	6,095	1,666	27%	19,364	(4,814)	(25%)	The decrease in profitability stems mainly from investment in developing solutions in the field of intercepting UAVs – through Aeronaut Systems Ltd.
Total before adjustments	**423,179**	**51,880**	**12%**	**392,848**	**42,202**	**11%**	**1,601,363**	**168,730**	**11%**	
Adjustments for intercompany revenue and other expenses	(5,877)	(27)	0%	(7,727)	(66)	0%	(23,889)	(137)		
Total according to financial report	**417,302**	**51,853**	**12%**	**385,121**	**42,136**	**11%**	**1,577,474**	**168,593**	**11%**	

6. <u>Liquidity and Financing Sources</u>:

Item	As of March 31, 2026 (thousands of NIS)	(% of total balance sheet)	As of March 31, 2025 (thousands of NIS)	(% of total balance sheet)	As of December 31, 2025 (thousands of NIS)	(% of total balance sheet)
Equity	943,147	44%	983,155	47%	949,137	48%
Long-term liabilities	287,846	13%	244,397	12%	307,152	15%
Short-term liabilities	924,838	43%	857,661	41%	747,244	37%
Total	**2,155,831**	**100%**	**2,085,213**	**100%**	**2,003,533**	**100%**

As of March 31, 2026, about 44% of the Company's assets were financed by equity, which decreased during the report period by NIS 6 million.

As of March 31, 2026, the Company's working capital ratio stands at 1.1 compared to a ratio of 1.25 in the equivalent period last year. The Company's financing sources are based, as mentioned above, on internal sources, on long-term and short-term loans from banks and commercial papers.

Along with the publication of this report, the Company published a report containing data regarding the Company's liabilities status, as required by Regulation 38e of the Securities Regulations (Periodic and Immediate Reports), 1970 (this information constitutes inclusion by way of reference).

The Company has a balance of cash and short-term investments as of March 31, 2026, totaling approximately NIS 414.9 million.

7. <u>Below are the main components of the cash flow and their use (in thousands of NIS)</u>:

Item	For the 3-month period ended March 31, 2026	For the 3-month period ended March 31, 2025	For the year ended December 31, 2025	Board of Directors' Explanations
Net cash provided by (used in) operating activities	(537)	105,585	149,979	The decrease results from the fact that in the equivalent period, a significant advance was received in the shipyard segment.
Net cash used in investing activities	(46,543)	(69,638)	(287,494)	The change results mainly from the fact that in the equivalent period, a larger investment was made in fixed assets, with an emphasis on the silos construction project.
Net cash provided by financing activities	88,847	167,832	180,878	The change results mainly from the fact that in the equivalent period, there was a more significant increase in short-term credit for financing the silos in the port segment and also for financing working capital in the construction materials segment, while in the report period, the increase in credit was more moderate.
Other effects	(4,824)	12,569	321	
Increase in cash for the period	**36,943**	**216,348**	**43,684**	

8. <u>Backlog of Orders</u>

<u>Below is the Company's backlog of orders in the shipyard segment (in thousands of NIS):</u>

("Backlog of orders" - means binding orders that have not yet been recognized as revenue in the financial reports).

Item	Close to the report publication date	As of March 30, 2026	As of December 31, 2025
Shipyard segment	2,575,145	2,575,145	2,644,656

9. Net financial debt as of March 31, 2026 (in NIS thousands):

Item	Shipyard segment	Port segment	Construction materials segment	Maritime transport segment	Other	Total
Credit from banking and other corporations and long-term loans	(2,102)	-	(340,679)	(74,398)	(165,387)	(582,566)
Cash and cash equivalents	260,387	33,043	24,518	4,214	36,071	358,233
Short-term investments and other long-term debts and investments	14,035	-	-	1,042	41,594	56,671
Net financial assets (financial liabilities) per the financial report	**272,320**	**33,043**	**(316,161)**	**(69,142)**	**(87,722)**	**(167,662)**
Inter-segment credit	44,889	(230,091)	(75,259)	(59,323)	319,784	-
Net financial and inter-segment assets (financial liabilities) as of March 31, 2026	**317,209**	**(197,048)**	**(391,420)**	**(128,465)**	**232,062**	**(167,662)**
Net financial and inter-segment assets (financial liabilities) as of December 31, 2025	**293,723**	**(191,482)**	**(308,692)**	**(126,094)**	**235,775**	**(96,770)**

10. Sensitivity tests for the fair value of financial instruments as of March 31, 2026 (in NIS thousands):

1. Sensitivity test for changes in the exchange rate between the NIS and the Dollar:

Profit (loss) resulting from changes in the market factor

Nature of change	10% increase	5% increase	Book value as of 31.3.26	5% decrease	10% decrease
Surplus assets in US Dollars	(3,437)	(1,719)	(34,373)	1,719	3,437

2. Sensitivity test for changes in the exchange rate between the NIS and the Euro:

Profit (loss) resulting from changes in the market factor

Nature of change	10% increase	5% increase	Book value as of 31.3.26	5% decrease	10% decrease
Surplus assets in Euro	12,089	6,044	120,888	(6,044)	(12,089)

The Group's policy regarding the management of sensitivity risks to changes in the exchange rates of the Dollar and the Euro is the hedging of economic (cash flow) exposure arising from the existing risk in exchange rate fluctuations. To protect itself from these changes in exchange rates, the Group carries out hedging transactions in varying volumes from time to time and at the discretion of the Group's management.

3. Sensitivity tests for changes in market interest rates (*):

a. Profit (loss) resulting from a sensitivity test for a change in the NIS interest rate

Nature of change	2% increase	1% increase	Fair value as of 31.3.26	1% decrease	2% decrease
Variable rate loans	(14,988)	(7,494)	(74,942)	7,494	14,988

b. Profit (loss) resulting from a sensitivity test for a change in the Euro interest rate

Nature of change	2% increase	1% increase	Fair value as of 31.3.26	1% decrease	2% decrease
Variable rate loans	(1,896)	(948)	(9,484)	948	1,896

c. Profit (loss) resulting from a sensitivity test for a change in the Dollar interest rate

Nature of change	2% increase	1% increase	Fair value as of 31.3.26	1% decrease	2% decrease
Variable rate loans	(9,020)	(4,510)	(45,101)	4,510	9,020

*) Refers only to long-term loans. It should be noted that the company also has short-term loans in the amount of approximately NIS 251 million and two commercial papers (CP) totaling NIS 150 million, most of which are linked to the Prime rate. A 1% increase in interest is expected to increase financing expenses for the credit and CPs by approximately NIS 3.7 million on an annual basis.

For the linkage basis report as of March 31, 2026, and December 31, 2025, see **Appendix A** to this report.

11. Information regarding material events during and after the report period

For details regarding events during and after the report period, see Note 6 to the Company's financial reports as of March 31, 2026.

12. Corporate governance aspects

Negligible transactions procedure

For details about the negligible transactions procedure in the company, see Section 8 of the Annual Board of Directors' Report in Chapter B of the 2025 Periodic report.

Procedure for classification and approval of "non-unusual" transactions

For details about the procedure for classification and approval of "non-unusual" transactions, see Section 3 of Regulation 22 in Chapter D "Additional Details about the Corporation" in the Company's 2025 Periodic report.

The Company's Board of Directors and management hereby express their appreciation to the Company's employees and managers.

Shlomo Fogel,	**Zvi Shechterman,**
Chairman of the Board	**CEO**

Date of signature: May 25, 2026

Appendix A

13. Linkage basis report as of March 31, 2026 (in NIS thousands)

Item	Unlinked Israeli currency	Foreign currency in Euro (including currency-linked)	Foreign currency in Dollar (including currency-linked)	Non-monetary items	Total
Assets					

Item	Unlinked Israeli currency	Foreign currency in Euro (including currency-linked)	Foreign currency in Dollar (including currency-linked)	Non-monetary items	Total
Cash and cash equivalents	222,442	86,209	49,582	-	358,233
Short-term investments	55,622	1,049	-	-	56,671
Customers	330,794	1,554	581	-	332,929
Current taxes receivable	13,106	-	-	-	13,106
Financial derivatives	-	-	-	-	-
Debtors and debit balances	16,827	67,479	10,789	-	95,095
Income receivable from construction contract works	21,119	-	8,600	-	29,719
Inventory	-	-	-	131,867	131,867
Financial instruments	31	-	-	-	31
Investment in companies accounted for using the equity method	-	-	-	5,056	5,056
Net fixed assets	-	-	-	940,491	940,491
Net right-of-use asset	-	-	-	111,370	111,370
Intangible assets and goodwill	-	-	-	74,948	74,948
Deferred taxes	-	-	-	6,315	6,315
Total assets	**659,941**	**156,291**	**69,552**	**1,270,047**	**2,155,831**
Credit from banking and other corporations	272,440	852	6,330	-	279,622
Commercial paper	150,000	-	-	-	150,000
Current maturities of lease liability	13,097	-	24,820	-	37,917
Liabilities to suppliers and service providers	179,135	23,238	7,027	-	209,400
Creditors and credit balances	79,050	227	664	-	79,941
Taxes payable	747	-	1,400	-	2,147
Financial derivatives	12,116	-	-	-	12,116
Liabilities for construction contract works	144,881	-	-	-	144,881
Long-term loans	81,754	11,087	60,103	-	152,944
Lease liabilities	76,957	-	3,581	-	80,538
Provisions	-	-	-	5,514	5,514
Liability for employee benefits, net	-	-	-	6,976	6,976
Liability for contingent consideration	7,400	-	-	-	7,400
Deferred taxes	-	-	-	43,288	43,288
Equity	-	-	-	943,147	943,147
Total liabilities and equity	**1,017,577**	**35,404**	**103,925**	**998,925**	**2,155,831**

Linkage Basis Report as of December 31, 2025 (in thousands of NIS)

Item	Israeli Currency Non-Linked	Foreign Currency in Euro (including foreign currency-linked)	Foreign Currency in Dollar (including foreign currency-linked)	Non-Monetary Items	Total
Assets					
Cash and cash equivalents	255,935	36,503	28,851	-	321,289
Short-term investments	54,932	1,081	-	-	56,013
Trade receivables	240,272	488	736	-	241,496
Current taxes receivable	9,286	-	-	-	9,286
Financial derivatives	-	-	-	-	-
Debtors and debit balances	10,308	42,201	8,056	-	60,566
Income receivable from construction contracts	39,099	-	4,795	-	43,894
Inventory	-	-	-	132,930	132,930
Financial instruments	31	-	-	-	31
Fixed assets, net	-	-	-	931,706	931,706
Right-of-use asset, net	-	-	-	122,052	122,052
Intangible assets and goodwill	-	-	-	75,932	75,932
Deferred taxes	-	-	-	8,669	8,669
Total Assets	**609,533**	**80,273**	**42,438**	**1,271,289**	**2,003,533**
Credit from banking and other corporations	154,979	1,170	6,380	-	162,529
Commercial paper	150,000	-	-	-	150,000
Current maturities of lease liabilities	15,330	-	25,015	-	40,345
Liabilities to suppliers and service providers	124,606	26,744	9,637	-	160,987
Creditors and credit balances	90,972	618	1,636	-	93,226
Taxes payable	6,355	-	1,400	-	7,755
Financial derivatives	9,235	-	-	-	9,235
Liabilities from construction contracts	115,113	-	144	-	115,257
Long-term loans	89,542	11,421	60,578	-	161,541
Lease liabilities	78,048	-	10,451	-	88,499

Item	Israeli Currency Non-Linked	Foreign Currency in Euro (including foreign currency-linked)	Foreign Currency in Dollar (including foreign currency-linked)	Non-Monetary Items	Total
Provisions	-	-	-	4,610	4,610
Liability for employee benefits, net	-	-	-	7,267	7,267
Contingent consideration liability	7,400	-	-	-	7,400
Deferred taxes	-	-	-	45,745	45,745
Equity	-	-	-	949,137	949,137
Total Liabilities and Equity	**841,580**	**39,953**	**115,241**	**1,006,759**	**2,003,533**

Financial Statements as of March 31, 2026

Israel Shipyards Industries Ltd.

Condensed Consolidated Interim Financial Statements as of March 31, 2026
Unaudited

Israel Shipyards Industries Ltd.

Condensed Consolidated Interim Financial Statements as of March 31, 2026

Unaudited

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Tel. +972-3-6232525

Fax +972-3-5622555

ey.com

Cost Forer Gabbay & Kasierer

144 Menachem Begin Road,

Tel-Aviv 6492102

Auditor's Review Report to the Shareholders of Israel Shipyards Industries Ltd.

Introduction

We have reviewed the accompanying financial information of Israel Shipyards Industries Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated statement of financial position as of March 31, 2026, and the condensed consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the three-month period then ended. The Board of Directors and management are responsible for the preparation and presentation of financial information for this interim period in accordance with International Accounting Standard IAS 34 - "Interim Financial Reporting", and they are also responsible for the preparation of financial information for this interim period under Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for this interim period based on our review.

Scope of Review

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

Conclusion

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

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

Tel Aviv,

May 25, 2026

Cost Forer Gabbay & Kasierer

Accountants

Israel Shipyards Industries Ltd. **Consolidated Statements of Financial Position (NIS in thousands)**

Item	As of March 31 2026 (Unaudited)	As of March 31 2025 (Unaudited)	As of December 31 2025 (Audited)
Current Assets			
Cash and cash equivalents	358,233	493,953	321,289
Short-term investments	56,671	52,893	56,013
Trade receivables, net	328,511	313,535	232,283
Revenues receivable from construction contracts	29,719	56,928	43,563
Current taxes receivable	13,106	5,416	9,286
Other receivables	95,095	25,217	60,566
Financial derivatives	-	13,781	-
Inventory	131,867	115,249	132,930
Total current assets	**1,013,202**	**1,076,972**	**855,930**
Non-Current Assets			
Trade and other receivables	4,418	9,162	9,213
Investment in financial assets measured at fair value	31	79	31
Investment in companies accounted for using the equity method	5,056	-	-
Property, plant and equipment, net	940,491	817,388	931,706
Intangible assets, net	40,822	46,739	41,806
Goodwill	34,126	35,135	34,126
Right-of-use asset, net	111,370	91,961	122,052
Deferred taxes	6,315	7,777	8,669
Total non-current assets	**1,142,629**	**1,008,241**	**1,147,603**
Total assets	**2,155,831**	**2,085,213**	**2,003,533**

Israel Shipyards Industries Ltd. **Consolidated Statements of Financial Position (NIS in thousands) - Continued**

Item	As of March 31 2026 (Unaudited)	As of March 31 2025 (Unaudited)	As of December 31 2025 (Audited)
Current Liabilities			
Credit from banking and other corporations	279,622	254,858	162,529
Commercial papers	150,000	50,000	150,000
Current maturities of lease liability	37,917	23,199	40,345
Trade payables	209,400	168,542	160,987
Other payables	79,941	76,897	93,226
Taxes payable	2,147	7,719	7,755
Provisions	5,514	6,354	4,610
Financial derivatives	12,116	-	9,235
Put option liability	-	1,300	-
Contingent consideration	3,300	31,000	3,300
Liabilities for construction contracts	144,881	237,792	115,257
Total current liabilities	**924,838**	**857,661**	**747,244**
Non-Current Liabilities			
Long-term loans	152,944	110,600	161,541
Lease liability	80,538	74,893	88,499
Employee benefit liabilities, net	6,976	7,526	7,267
Contingent consideration	4,100	-	4,100
Deferred taxes	43,288	51,378	45,745
Total non-current liabilities	**287,846**	**244,397**	**307,152**
Equity			
Equity attributable to shareholders of the Company	937,565	976,768	943,700
Non-controlling interests	5,582	6,387	5,437
Total equity	**943,147**	**983,155**	**949,137**
Total	**2,155,831**	**2,085,213**	**2,003,533**

Shlomi Fogel	Sami Katsav	Asi Shmeltzer	Zvi Shechterman	Liat Merhav
Chairman of the Board	Director	Director	CEO	CFO

Date of approval of the financial statements **May 25, 2026**

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

Israel Shipyards Industries Ltd. **Consolidated Statements of Profit or Loss (NIS in thousands)**

Item	For the three-month period ended March 31 2026 (Unaudited)	For the three-month period ended March 31 2025 (Unaudited)	For the year ended December 31 2025 (Audited)
Revenue	417,302	385,121	1,577,474
Cost of revenue	364,004	342,134	1,406,196
Gross profit	**53,298**	**42,987**	**171,278**
Research and development expenses	(2,474)	(5)	(8,279)
Selling and marketing expenses	(9,350)	(8,094)	(32,446)
General and administrative expenses	(21,875)	(20,834)	(88,225)
Other income (expenses), net	-	2,758	(1,844)
Operating profit	**19,599**	**16,812**	**40,484**
Other income	-	-	2,063
Company's share in profits of companies accounted for under the equity method, net	309	-	-
Finance income	3,222	5,558	23,566
Finance expenses	(8,580)	(6,149)	(31,797)
Finance income (expenses), net	(5,358)	(591)	(8,231)
Profit before taxes on income	**14,550**	**16,221**	**34,316**
Taxes on income	3,912	4,862	7,486
Net profit	**10,638**	**11,359**	**26,830**
Attributable to:			
Shareholders of the Company	10,499	11,665	27,310
Non-controlling interests	139	(306)	(480)
Total	**10,638**	**11,359**	**26,830**
Net profit per share attributable to the Company's shareholders (in NIS)			
Basic and diluted net profit per share	0.42	0.467	1.09

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

Israel Shipyards Industries Ltd. **Consolidated Statements of Comprehensive Income (NIS in thousands)**

	Item	For the three-month period ended March 31 2026 (Unaudited)	For the three-month period ended March 31 2025 (Unaudited)	For the year ended December 31 2025 (Audited)
Net profit		10,638	11,359	26,830
Other comprehensive income (loss) (after tax effect):				
Amounts that will not be reclassified to profit or loss				
Gain (loss) from investments in equity instruments measured at fair value through other comprehensive income		-	-	(38)
Total items that will not be subsequently reclassified to profit or loss		-	-	(38)
Amounts that were or will be reclassified to profit or loss when specific conditions are met:				
Adjustments from translation of financial statements of foreign operations		(1,452)	5,324	(20,662)
Gain (loss) from cash flow hedging transactions		(7,255)	17,416	(12,470)
Total items that will or may be reclassified to profit or loss		(8,707)	22,740	(33,171)
Total other comprehensive income (loss)		(8,707)	22,740	(33,171)
Total comprehensive income (loss)		**1,931**	**34,099**	**(6,340)**
Attributable to:				
Company's shareholders		1,884	34,287	(4,900)
Non-controlling interests		47	(188)	(1,440)
Total		**1,931**	**34,099**	**(6,340)**

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

Israel Shipyards Industries Ltd.

Consolidated Statements of Changes in Equity – Unaudited (NIS in thousands)

Israel Shipyards Industries Ltd. Consolidated Statements of Changes in Equity – Unaudited (NIS in thousands)

Item	Share capital and premium on shares	Retained loss	Capital reserve for hedging transactions	Adjustments from translation of financial statements of foreign operations	Capital reserve from transactions with non-controlling interests	Other capital reserves	Total attributable to company's shareholders	Non-controlling interests	Total equity
Balance as of January 1, 2026 (Audited)	428,249	(347,718)	(6,325)	(19,642)	(40,107)	929,243	943,700	5,437	949,137
Net profit	-	10,499	-	-	-	-	10,499	139	10,638
Other comprehensive income (loss)	-	-	(7,167)	(1,448)	-	-	(8,615)	(92)	(8,707)
Total comprehensive income	-	10,499	(7,167)	(1,448)	-	-	1,884	47	1,931
Reclassification of cash flow hedge reserve to inventory	-	-	1,981	-	-	-	1,981	98	2,079
Dividend distributed	-	(10,000)	-	-	-	-	(10,000)	-	(10,000)
Balance as of March 31, 2026 (Unaudited)	428,249	(347,219)	(11,511)	(21,090)	(40,107)	929,243	937,565	5,582	943,147

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

Item	Share capital and premium on shares	Retained loss	Capital reserve for hedging transactions	Adjustments from translation of financial statements of foreign operations	Capital reserve from transactions with non-controlling interests	Other capital reserves	Total attributable to company's shareholders	Non-controlling interests	Total equity
Balance as of January 1, 2025 (Audited)	**428,249**	**(355,028)**	**(935)**	**432**	**(40,107)**	**929,281**	**961,892**	**6,748**	**968,640**
Net profit	-	11,665	-	-	-	-	11,665	(306)	11,359
Other comprehensive income (loss)	-	-	17,386	5,236	-	-	22,622	118	22,740
Total comprehensive income	**-**	**11,665**	**17,386**	**5,236**	**-**	**-**	**34,287**	**(188)**	**34,099**

Item	Share capital and premium on shares	Retained loss	Capital reserve for hedging transactions	Adjustments from translation of financial statements of foreign operations	Capital reserve from transactions with non-controlling interests	Other capital reserves	Total attributable to company's shareholders	Non-controlling interests	Total equity
Reclassification of cash flow hedge reserve to inventory	-	-	589	-	-	-	589	29	618
Dividend declared	-	(20,000)	-	-	-	-	(20,000)	(202)	(20,202)
Balance as of March 31, 2025 (Unaudited)	**428,249**	**(363,363)**	**17,040**	**5,668**	**(40,107)**	**929,281**	**976,768**	**6,387**	**983,155**

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

Israel Shipyards Industries Ltd. **Consolidated Statements of Changes in Equity—Audited (NIS in thousands)**

Item	Share capital and premium on shares	Retained loss	Capital reserve for hedging transactions	Adjustments from translation of financial statements of foreign operations	Capital reserve from transactions with non-controlling interests	Other capital reserves	Total attributable to company's shareholders	Non-controlling interests	Total equity
Balance as of January 1, 2025	428,249	(355,028)	(935)	432	(40,107)	929,281	961,892	6,748	968,640
Net profit	-	27,310	-	-	-	-	27,310	(480)	26,830
Other comprehensive income (loss)	-	-	(12,098)	(20,074)	-	(38)	(32,210)	(960)	(33,170)
Total comprehensive income	**-**	**27,310**	**(12,098)**	**(20,074)**	**-**	**(38)**	**(4,900)**	**(1,440)**	**(6,340)**
Reclassification of cash flow hedge reserve to inventory	-	-	6,708	-	-	-	6,708	331	7,039
Dividend	-	(20,000)	-	-	-	-	(20,000)	(202)	(20,202)
Balance as of December 31, 2025	**428,249**	**(347,718)**	**(6,325)**	**(19,642)**	**(40,107)**	**929,243**	**943,700**	**5,437**	**949,137**

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

Consolidated Statements of Cash Flows (NIS in thousands) Israel Shipyards Industries Ltd.

Item	For the three-month period ended March 31, 2026 (Unaudited)	For the three-month period ended March 31, 2025 (Unaudited)	For the year ended December 31, 2025 (Audited)
Cash flows from operating activities			
Net profit	10,638	11,359	26,830
Adjustments required to present cash flows from operating activities			
Adjustments to profit and loss items:			
Financing expenses, net	3,064	2,015	5,345
Depreciation and amortization	31,914	25,280	124,373
Loss from disposal of fixed assets	-	-	3,773
Loss (gain) from disposal of fixed assets and assets held for sale	-	-	304
Interest and revaluation (erosion) of liabilities to banking corporations and other long-term liabilities, net	(853)	1,216	(6,997)
Gain from derecognition of asset and lease liability	-	-	(18)
Deferred taxes, net	1,452	2,139	(2,546)
Taxes on income	2,418	2,723	10,030
Change in liabilities for employee benefits, net	(291)	(238)	(497)
Profits of companies accounted for using the equity method	(309)	-	-
Change in financial derivatives and hedging instruments measured at fair value through other comprehensive income	-	-	4,950
Decrease (increase) in the value of financial derivatives measured at fair value through profit or loss, net and other hedging instruments	162	(720)	-
Change in fair value of liability for contingent consideration	-	-	(2,063)
Exchange rate differences on cash and cash equivalents balances	2,563	(2,790)	3,821
Total adjustments to profit and loss items	**40,120**	**29,625**	**140,475**
Changes in asset and liability items:			
Increase in trade receivables	(92,233)	(131,640)	(63,118)
Decrease (increase) in income receivable from construction contract works	13,844	(10,417)	2,948
Increase in other receivables and debit balances	(34,184)	(2,685)	(40,459)

Israel Shipyards Industries Ltd. Consolidated Statements of Cash Flows (NIS in thousands) - Continued

Item	For the three-month period ended March 31, 2026 (Unaudited)	For the three-month period ended March 31, 2025 (Unaudited)	For the year ended December 31, 2025 (Audited)
Decrease (increase) in inventory	1,063	(2,197)	(19,878)
Increase in liabilities for construction contract works	29,623	237,792	115,257
Increase (decrease) in trade payables and service providers	58,395	(3,636)	(11,583)
Increase (decrease) in other payables and credit balances	(13,224)	(22,657)	13,895
Increase (decrease) in provisions	904	(1,558)	(3,302)
Total changes in asset and liability items	**(35,812)**	**63,002**	**(6,240)**
Cash paid and received during the period for:			
Interest paid	(6,336)	(5,094)	(23,473)
Interest received	2,402	1,823	13,371
Taxes paid	(13,228)	(2,380)	(15,549)
Taxes received	1,679	7,250	14,565
Total cash paid and received during the period	**(15,483)**	**1,599**	**(11,086)**
Net cash provided by (used in) operating activities	**(537)**	**105,585**	**149,979**

The accompanying notes form an integral part of the Condensed Interim Consolidated Financial Statements.

Item	**For the three-month period ended March 31, 2026 (Unaudited)**	**For the three-month period ended March 31, 2025 (Unaudited)**	**For the year ended December 31, 2025 (Audited)**
Cash flows from investing activities			
Change in short-term investments	(500)	(1,020)	107
Acquisition of fixed assets	(38,189)	(68,618)	(260,060)

Item	For the three-month period ended March 31, 2026 (Unaudited)	For the three-month period ended March 31, 2025 (Unaudited)	For the year ended December 31, 2025 (Audited)
Capitalized borrowing costs for an asset under construction	(1,633)	-	(5,400)
Capitalized development costs	(1,496)	-	(2,613)
Investment in a company accounted for using the equity method	(4,725)	-	-
Proceeds from disposal of fixed assets	-	-	2,009
Payment for contingent consideration	-	-	(21,537)
Net cash used in investing activities	**(46,543)**	**(69,638)**	**(287,494)**
Cash flows from financing activities			
Dividend paid to the company's shareholders	(10,000)	-	(20,000)
Dividend paid to non-controlling interests	-	(202)	(202)
Issuance of commercial paper	-	50,000	150,000
Exercise of put options	-	-	(1,300)
Repayment of lease liabilities	(10,899)	(5,917)	(38,585)
Receipt (repayment) of short-term credit, net	120,798	128,512	81,563
Receipt of loans	-	-	84,710
Repayment of loans	(11,052)	(4,561)	(75,308)
Net cash provided by financing activities	**88,847**	**167,832**	**180,878**
Exchange rate differences on cash and cash equivalents balances	**(3,583)**	**11,690**	**(3,821)**
Translation differences on cash balances of foreign operations	**(1,241)**	**879**	**4,142**
Increase in cash and cash equivalents	**36,943**	**216,348**	**43,684**
Balance of cash and cash equivalents at the beginning of the period	**321,289**	**277,605**	**277,605**

Consolidated Statements of Cash Flows (NIS in thousands) - Continued   Israel Shipyards Industries Ltd.

Item	For the three-month period ended March 31, 2026 (Unaudited)	For the three-month period ended March 31, 2025 (Unaudited)	For the year ended December 31, 2025 (Audited)
Balance of cash and cash equivalents at the end of the period	**358,232**	**493,953**	**321,289**

The accompanying notes form an integral part of the Condensed Interim Consolidated Financial Statements.

Item	For the three-month period ended March 31, 2026 (Unaudited)	For the three-month period ended March 31, 2025 (Unaudited)	For the year ended December 31, 2025 (Audited)
A. Significant non-cash activities			
Recognition of right-of-use asset against lease liability	677	-	73,294
Derecognition of right-of-use asset	-	-	(11,017)
Derecognition of lease liability	-	-	11,035
Dividend payable	-	20,000	-
Acquisition of fixed assets on credit	19,462	23,189	25,452
Total significant non-cash activities	**20,139**	**41,491**	**98,764**

The accompanying notes form an integral part of the Condensed Interim Consolidated Financial Statements.

Note 1: General

A. The Reporting Entity

Israel Shipyards Industries (hereinafter – the Company) is an Israeli resident company located in Haifa Bay. The Company's shares are traded on the Tel Aviv Stock Exchange.

These financial statements were prepared in a condensed format as of March 31, 2026, and for the three-month period then ended (hereinafter - Condensed Interim Consolidated Financial Statements). These statements should be read in conjunction with the Company's annual financial statements as of December 31, 2025, and for the year then ended and the accompanying notes (hereinafter - the Annual Consolidated Financial Statements).

B. The Impact of the Increase in Inflation and Interest Rates

Starting from January 2026, the bank of Israel interest rate stood at 4%. After the balance sheet date, close to the publication date of the report, the Monetary Committee of the bank of Israel decided, on May 25, 2026, to reduce the interest rate in the economy by 0.25%, to a level of 3.75%. The Group finances its activities from cash balances at its disposal, from commercial papers and from short and long-term bank credit. As of March 31, 2026, approximately NIS 531 million of the Group's bank credit is variable interest credit, most of which is linked to the Prime rate.

An increase or decrease of 1% in the Prime interest rate will increase or decrease the Company's annual financing expenses regarding these loans by a total of approximately NIS 5.3 million on an annual level. It should be noted that the Company financed a significant part of the investment in tugboats through short-term credit, and that during the report period, the Company began the test-run phase of the tugboats. The Company plans to convert part of the short-term credit in the future by taking a long-term loan, depending on the volume of tugboat activity.

C. The Impact of Operation "Lion's Roar"

On February 28, 2026, a combined attack by Israel and the United States named "Lion's Roar" was launched against government targets in Iran to degrade Iranian nuclear and ballistic missile capabilities, which led to an escalation in the security situation in Israel and subsequently an encounter began on the northern front between Israel and the Hezbollah terrorist organization in Lebanon. As a result, significant volatility began in energy prices, including oil prices and exchange rate fluctuations. A bilateral ceasefire between the United States and Iran came into effect at the beginning of April 2026, and at the end of April a ceasefire was also declared in the Lebanon fighting arena, although in practice friction and military actions continue in the area. As of this date, negotiations with Iran have not yet matured into a binding agreement, the United States is imposing a naval blockade on Iran, and the entire region is in a state of ongoing security tension despite the existence of ceasefires.

In the construction materials segment, there was a decrease in revenue during the period of Operation "Lion's Roar" due to the reduction in construction site activities in Israel during the operation. The segment's revenue in the report period decreased by 15% relative to the corresponding period. The Company estimates that the decrease is affected, among other things, by the impact of Operation "Lion's Roar", which led to a reduction in construction site activity in Israel during the operation. Despite the decrease in revenue as mentioned, profitability in the segment was maintained. However, the Company is unable to reliably estimate the scope of the impact out of the total decrease.

Given the existing uncertainty, including the possibility of further escalation, as of the report date the Company is unable to accurately estimate the full extent of the damage and additional future effects of the war's impact on its results.

However, as of this date, the Company's management estimates that there is no apparent concern regarding the Company's financial stability, given its cash balances and short-term investments relative to the existing credit volume.

Note 2: - Significant Accounting Policies

Basis of Presentation of the Condensed Consolidated Interim Financial Statements

The condensed consolidated interim financial statements are prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting", and in accordance with the disclosure requirements of Chapter D of the Securities Regulations (Periodic and Immediate Reports), 1970.

The accounting policies applied in the preparation of the condensed consolidated interim financial statements are consistent with those applied in the preparation of the annual consolidated financial statements.

Note 3: - Financial Instruments

A. Fair Value (in thousands of NIS)

Financial liabilities:	March 31, 2026 Balance Unaudited	March 31, 2026 Fair Value Unaudited	March 31, 2025 Balance Unaudited	March 31, 2025 Fair Value Unaudited	December 31, 2025 Balance Audited	December 31, 2025 Fair Value Audited
Long-term loans at variable interest (1)	129,528	129,528	68,289	68,289	135,119	135,119
Long-term loans at fixed interest (2)	51,041	47,842	68,132	63,141	54,748	51,145
Total	**180,569**	**177,370**	**136,421**	**131,430**	**189,867**	**186,264**

(1) The carrying amount represents an approximation of the fair value.

(2) The fair value of long-term loans received bearing fixed interest is based on a calculation of the present value of cash flows according to the interest rate accepted for a similar loan with similar characteristics.

The balance in the financial statements of cash and cash equivalents, short-term investments, trade receivables, debtors and debit balances, trade payables and service providers, creditors and credit balances, credit from banking corporations and commercial papers corresponds to or is close to their fair value.

B. Classification of financial instruments according to the fair value hierarchy

Financial instruments presented in the balance sheet at fair value are classified, by groups with similar characteristics, into the fair value hierarchy as follows, which is determined according to the data source used to determine the fair value:

Level 1: Quoted prices (without adjustments) in an active market for identical assets and liabilities.

Level 2: Data other than quoted prices included in Level 1 that are observable directly or indirectly.

Level 3: Data that is not based on observable market information (valuation techniques without the use of observable market data).

Note 3: - Financial Instruments (continued)

Financial instruments measured at fair value - Level 2 (in thousands of NIS)

Item	As of March 31 2026 (Unaudited)	As of March 31 2025 (Unaudited)	As of December 31 2025 (Audited)
Financial assets measured at fair value			
Investment in securities	55,166	-	54,351
Hedging financial derivatives	-	13,781	-
Total financial assets measured at fair value	**55,166**	**13,781**	**54,351**
Financial liabilities measured at fair value			
Hedging financial derivatives	12,116	-	9,235
Total financial liabilities measured at fair value	**12,116**	**-**	**9,235**

Financial instruments measured at fair value - Level 3 (in thousands of NIS)

Item	As of March 31 2026 (Unaudited)	As of March 31 2025 (Unaudited)	As of December 31 2025 (Audited)
Financial assets measured at fair value			
Investments in financial assets	31	79	31
Total financial assets measured at fair value	**31**	**79**	**31**
Financial liabilities measured at fair value			
Liability in respect of a put option	-	1,300	-
Liability in respect of contingent consideration	7,400	31,000	7,400
Total financial liabilities measured at fair value	**7,400**	**32,300**	**7,400**

Note 3: - Financial Instruments (continued)

Below is the movement in the liability in respect of contingent consideration (measured at Level 3 in the fair value hierarchy) (in thousands of NIS):

	As of March 31 2026 (Unaudited)	As of March 31 2025 (Unaudited)	As of December 31 2025 (Audited)
Balance at beginning of period	7,400	31,000	31,000
Payment during the period	-	-	(21,537)

	As of March 31 2026 (Unaudited)	As of March 31 2025 (Unaudited)	As of December 31 2025 (Audited)
Changes in fair value not settled and recognized in profit or loss	-	-	* (2,063)
Balance at end of period	**7,400**	**31,000**	**7,400**

(*) The change in fair value measurement in the amount of approximately NIS 2.1 million was recorded under the other income item.

During the three-month period ended March 31, 2026, there was no transfer from Level 3 or to Level 3.

Update regarding compliance with financial covenants

The Company is committed to complying with various financial covenants towards various banking corporations in connection with credit agreements signed between it and those banking corporations as specified in Note 19 to the annual consolidated financial statements. The Company's commitment to complying with financial covenants in connection with loans from banking corporations is examined every quarter.

Shipyards and Prima complied with the financial covenants set as of March 31, 2026.

As of March 31, 2026, Ciment did not comply with the financial covenant set with banking corporations according to which the amount of operating profit from current activity before depreciation accumulated in the period of the last 4 cumulative quarters of Ciment and a related company shall not be less than a total of NIS 25 million at the end of each quarter. The amount of long-term loans for which there is a breach of the above financial covenant is approximately NIS 67 million. The banking corporations approved during the report period the postponement of the application of the above financial covenant so that the condition would not be in effect on March 31, 2026, and would return to effect only in December 2026. With the aforementioned postponement, the Company expects that on December 31, 2026, and on March 31, 2027, it will comply with the above financial covenant.

Note 4: - Revenue (in thousands of NIS)

Item	For the three-month period ended March 31 2026 (Unaudited)	For the three-month period ended March 31 2025 (Unaudited)	For the year ended December 31 2025 (Audited)
Revenue from the Shipyard sector	129,749	54,383	270,771
Revenue from the Port sector	45,020	38,705	167,305
Revenue from the Construction Materials sector	221,041	262,080	1,046,116
Revenue from the Maritime Transport sector	18,821	26,448	79,968
Revenue from other sector	2,671	3,505	13,314
Total	**417,302**	**385,121**	**1,577,474**

Note 5: - Operating Segments

A. General

As stated in the annual consolidated financial statements, the Group has the following operating segments:

Shipyard sector - Activity involves the design and manufacture of military and civilian vessels, providing repair and maintenance services for vessels, and the design and manufacture of other metal structures. Additionally, the sector also includes providing various services to oil and gas production companies.

Port sector - Activity involves the provision of port services, including unloading, transport, and storage. Starting from 2025, with the launch of the railway track extension in the shipyard complex, land transport activity is included in this sector.

Construction Materials sector - Activity involves the import, production, marketing, and sale of products used in the construction industry, including cement products, powders and adhesives, sealing and insulation materials, plasters, gypsum products, and acrylic paints.

Maritime Transport sector – Activity involves the acquisition, management, and operation of various types of general cargo ships.

Other – Primarily includes activity involving the provision of logistics services to companies operating in the field of gas drilling, as well as headquarters costs. Starting from 2025, the results also include development activity in the field of UAV interception.

Business development expenses in the Group are not allocated to a specific sector and are therefore presented separately.

Note 5: - Operating Segments (Continued)

B. Reporting on Operating Segments

Item	Shipyard Segment	Port Segment	Construction Materials	Maritime Transport Segment	Other	Consolidation Adjustments	Total
For the three-month period ended March 31, 2026 (Unaudited)							
Total external income	129,749	45,020	221,041	18,821	2,671	-	**417,302**
Inter-segment revenues	446	4,306	-	-	1,125	(5,877)	-
Total revenues	130,195	49,326	221,041	18,821	3,796	(5,877)	**417,302**
Segment profit	16,873	11,867	23,073	2,142	(2,075)	-	**51,880**
Unallocated joint expenses:							
Business development expenses							27
Depreciation							31,945
Financing expenses (income), net							5,358
Profit before taxes on income							**14,550**

Item	Shipyard Segment	Port Segment	Construction Materials	Maritime Transport Segment	Other	Consolidation Adjustments	Total
For the three-month period ended March 31, 2025 (Unaudited)							
Total external income	54,383	38,705	262,080	26,448	3,505	-	**385,121**
Inter-segment revenues	-	5,137	-	-	2,590	(7,727)	-
Total revenues	54,383	43,842	262,080	26,448	6,095	(7,727)	**385,121**
Segment profit	2,201	8,064	22,210	8,061	1,666	-	**42,202**
Unallocated joint expenses:							
Business development expenses							66
Depreciation							25,309
Financing expenses (income), net							606
Profit before taxes on income							**16,221**

Note 5: - Operating Segments (Continued)

B. Reporting on Operating Segments (Continued)

Item	Shipyard Segment	Port Segment	Construction Materials	Maritime Transport Segment	Other	Consolidation Adjustments	Total
For the year ended December 31, 2025 (Audited)							
Total external income	270,771	167,305	1,046,116	79,968	13,314	-	1,577,474
Inter-segment revenues	446	17,393	-	-	6,050	(23,889)	-
Total revenues	**271,217**	**184,698**	**1,046,116**	**79,968**	**19,364**	**(23,889)**	**1,577,474**
Cost of sales (excluding depreciation)	210,157	131,199	898,980	65,407	2,727	(17,633)	1,290,837
Segment profit	**31,068**	**37,329**	**89,568**	**15,579**	**(4,814)**	**-**	**168,730**
Unallocated joint expenses:							
Business development expenses							137
Other income							(2,063)
Depreciation and amortizations							128,107
Financing expenses, net							8,232
Profit before taxes on income							**34,317**

C. Breakdown of revenues by geographic location of customers (NIS thousands)

Item	For the three-month period ended March 31, 2026 (Unaudited)	For the three-month period ended March 31, 2025 (Unaudited)	For the year ended December 31, 2025
Israel	398,711	357,643	1,477,376
Europe and the Mediterranean	8,761	6,858	29,118
Africa and the Far East	4,379	18,215	43,732
South America and Other	5,451	4,406	27,248
Total	**417,302**	**387,121**	**1,577,474**

Note 6: - Events during and after the reporting period

1. Further to Note 13E in the annual consolidated financial statements for 2025, during the report period, the Company began the test-run phase of the silos facility.

2. In February 2025, Israel Shipyards, Israel Shipyards Port and Ciment received increased property tax (arnona) charges for 2025 regarding their operations in the Israel Shipyards area in Haifa, which included a split of the property tax assessment between the three companies and also involves changing the classifications of various buildings in the complex. Consequently, the general annual property tax demand in the shipyard complex represents an addition of approximately 7.6 million NIS per year. The companies submitted objections to the municipality's property tax director, who has not yet submitted his responses to the objections. During the report period, property tax charges for the year 2026 were received, which, according to the company, are increased charges in the same manner. The companies intend to submit an objection also regarding the charges as mentioned. The company made a provision in its statements in accordance with the assessment of its legal advisors.

3. On February 4, 2026, the Company announced that Israel Shipyards entered into an agreement to supply vessels and various services for a government customer abroad. The shipyard will supply four vessels for an amount of approximately 62 million dollars. The vessels will be supplied within a period of 36 months. In accordance with the terms of the transaction, an advance payment equal to 5% of the transaction was received and the balance of the consideration will be paid in installments according to the project milestones.

4. During the report period, the subsidiary ISKO made an investment in the amount of 1.5 million dollars (approx. 4.7 million NIS) in a partnership with a third party, engaged in operating a cement ship. ISKO is entitled to participate in 50% of the partnership's profits. The investment in the partnership is treated according to the equity method.

5. Further to Note 8C in the annual consolidated financial statements for 2025 regarding the Company entering into customer discounting agreements, as of March 31, 2026, customer debts were not derecognized (as of December 31, 2025, customer debts in the amount of approx. 141 million NIS were derecognized).

6. On March 17, 2026, the Company distributed a dividend to its shareholders in the amount of 10 million NIS.

Kost Forer Gabbay & Kasierer
144A Menachem Begin St.,
Tel-Aviv 6492102
Tel. +972-3-6232525
Fax +972-3-5622555
ey.com

May 25, 2026

To

The Board of Directors of Israel Shipyards Industries Ltd.

53 Julius Simon St.,

Haifa 3296280

Dear Sir/Madam,

Subject: Consent letter in connection with the shelf prospectus of Israel Shipyards Industries Ltd. (hereinafter – the Company) from August 2023

We hereby notify you that we agree to the inclusion (including by way of reference) of our reports listed below in connection with the shelf prospectus from August 2023:

(1) Review report dated May 25, 2026, on the condensed interim consolidated financial information of the Company as of March 31, 2026, and for the three-month period ended on that date.

Sincerely,

Kost Forer Gabbay & Kasierer

accountants

Report on the effectiveness of internal control over financial reporting and disclosure

Quarterly report on the effectiveness of internal control over financial reporting and disclosure according to Regulation 38C(a) of the Securities Regulations (Periodic and Immediate Reports), 1970:

The management, under the supervision of the Board of Directors of Israel Shipyards Industries Ltd. (hereinafter: "the Corporation"), is responsible for the determination and existence of adequate internal control over financial reporting and disclosure in the Corporation.

In this regard, the members of management are:

1. Zvi Shechterman, CEO;
2. Liat Merhav, CFO;

Internal control over financial reporting and disclosure includes controls and procedures existing in the Corporation, which were designed by the General Manager and the most senior officer in the field of finance or under their supervision or by whoever actually performs the said functions, under the supervision of the Corporation's Board of Directors and which are intended to provide a reasonable degree of assurance regarding the reliability of the financial reporting and the preparation of the reports in accordance with the provisions of the law, and to ensure that information that the Corporation is required to disclose in the reports it publishes according to the provisions of the law is collected, processed, summarized and reported on the date and in the format prescribed by law.

Internal control includes, among other things, controls and procedures designed to ensure that information that the Corporation is required to disclose as stated, is accumulated and transferred to the Corporation's management, including to the General Manager and the most senior officer in the field of finance or to whoever actually performs the said functions, in order to enable decision-making at the appropriate time, with respect to disclosure requirements.

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

In the annual report on the effectiveness of internal control over financial reporting and disclosure which was attached to the Periodic report for the period ended December 31, 2025 (hereinafter: "**the last annual report regarding internal control**"), the Board of Directors and management evaluated the internal control in the Corporation; based on this evaluation, the Board of Directors and the Corporation's management reached the conclusion that said internal control, as of December 31, 2025, is effective.

Until the date of the report, no event or matter was brought to the attention of the Board of Directors and management that would change the evaluation of the effectiveness of the internal control, as found in the last quarterly report regarding internal control;

As of the date of the report, based on the evaluation of the effectiveness of the internal control in the last quarterly report regarding internal control, and based on information brought to the attention of the management and the Board of Directors as stated above, the internal control is effective.

Executives' Declaration

Statement of the General Manager according to Regulation 38C(d)(1) of the Securities Regulations (Periodic and Immediate Reports), 1970:

I, Zvi Shechterman, declare that:

(1) I have examined the quarterly report of Israel Shipyards Industries Ltd. (hereinafter: "the Corporation") for the first quarter of 2026 (hereinafter: "the Reports");

(2)

To my knowledge, the Reports do not include any misrepresentation of a material fact and do not lack a representation of a material fact necessary so that the representations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the period of the Reports;

(3) To my knowledge, the financial statements and other financial information included in the Reports fairly reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the Reports refer;

(4) I have disclosed to the Corporation's auditor, to the Board of Directors and the Audit Committee of the Corporation's Board of Directors, based on my most recent evaluation of internal control over financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting and disclosure that could reasonably adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that would cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and also -

(b) Any fraud, whether material or not material, involving the General Manager or those directly subordinate to him or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or together with others in the Corporation:

(a) Determined controls and procedures, or ensured the determination and existence under my supervision of controls and procedures, designed to ensure that material information relating to the Corporation, including its consolidated companies as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Corporation and in the consolidated companies, particularly during the period of preparation of the Reports; and also-

(b) Determined controls and procedures, or ensured the determination and existence under my supervision of controls and procedures, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles;

(c) No event or matter occurring during the period between the date of the last quarterly report and the date of this report has been brought to my attention that would change the conclusion of the Board of Directors and management regarding the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

Nothing in the above shall derogate from my responsibility or the responsibility of any other person, under any law.

25.5.2026	Zvi Shechterman, CEO
Date	

Executives' Declaration

Statement of the most senior officer in the field of finance according to Regulation 38C(d)(2) of the Securities Regulations (Periodic and Immediate Reports), 1970:

I, Liat Merhav, declare that:

(1) I have examined the interim financial statements and other financial information included in the reports for the interim period of Israel Shipyards Industries Ltd. (hereinafter: "the Corporation") for the first quarter of 2026 (hereinafter: "the Reports" or "the interim period reports");

(2) To my knowledge, the interim financial statements and other financial information included in the reports for the interim period do not include any misrepresentation of a material fact and do not lack a representation of a material fact necessary so that the representations included in them, in light of the circumstances in which those representations were included, will not be misleading with respect to the period of the reports;

(3) To my knowledge, the interim financial statements and other financial information included in the reports for the interim period fairly reflect, in all material respects, the financial position, results of operations and cash flows of the Corporation for the dates and periods to which the reports refer;

(4) I have disclosed to the Corporation's auditor, to the Board of Directors and the Audit Committee of the Corporation's Board of Directors, based on my most recent evaluation of internal control over financial reporting and disclosure:

(a) All significant deficiencies and material weaknesses in the determination or operation of internal control over financial reporting and disclosure as it relates to the interim financial statements and other financial information included in the reports for the interim period, which could reasonably adversely affect the Corporation's ability to collect, process, summarize or report financial information in a manner that would cast doubt on the reliability of the financial reporting and the preparation of the financial statements in accordance with the provisions of the law; and also –

(b) Any fraud, whether material or not material, involving the General Manager or those directly subordinate to him or involving other employees who have a significant role in the internal control over financial reporting and disclosure;

(5) I, alone or together with others in the Corporation-

(a) Determined controls and procedures, or ensured the determination and existence under my supervision of controls and procedures, designed to ensure that material information relating to the Corporation, including its consolidated companies as defined in the Securities Regulations (Annual Financial Statements), 2010, is brought to my attention by others in the Corporation and in the consolidated companies, particularly during the period of preparation of the reports; and also-

(b)

Determined controls and procedures, or ensured the determination and existence under my supervision of controls and procedures, designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the financial statements in accordance with the provisions of the law, including in accordance with accepted accounting principles;

(c) No event or matter occurring during the period between the date of the last quarterly report, relating to the interim financial statements and any other financial information included in the reports for the interim period, has been brought to my attention that would change, in my evaluation, the conclusion of the Board of Directors and management regarding the effectiveness of the internal control over financial reporting and disclosure of the Corporation.

Nothing in the above shall derogate from my responsibility or the responsibility of any other person, under any law.

25.5.2026	
Date	Liat Merhav, CFO