

Thursday, October 25, 2018

Dear Partners,

We are in the fourth Q of 2018, and I would like to update you about the recent developments and our plans for the near future.

In this letter I would like to review the market, competition, business development, and the need for additional fund raising.

The market

The "Smart Grid" initiative was announced in the US at the end of 2007. Two years ago, after so many debates, the electricity industry agreed on a definition of what a Smart Grid is.

The trigger for the agreement was the massive entry of distributed renewable energies ("DER").

Smart grid is an electricity supply system, which can support renewable and traditional distributed electricity resources and storage in high reliability, resiliency, and security yet in affordable price.

The use of distributed renewable energies will increase, including the use of storage (batteries).

In the coming years we also expect a significant expansion in the use of electric vehicles.

Replacing the liquid fuel in the US with electricity for transportation only, will require doubling the electricity generation, and doubling the transmission and distribution grids.

While the issue of electricity generation is clear, the electricity transmission and distribution present a huge challenge for the electricity utilities: **how to manage it?**

The answer is the digitalized grid (until recently it was called Smart Grid).

In the ENERGY TRANSITION OUTLOOK 2018 – POWER SUPPLY AND USE, FORECAST TO 2050 BY DNV-GL (p. 72), "Digitalized Grid" defined as grid that consists of: **"large number of sensors, improved communication and tools for understanding and making use of these large amounts of data"**.

There is no better definition than this for our system!

Our system therefore is turning grids into digital grids and, I'm glad to say that the industry recognizes it.

The above description explains the development of the market, and presents the fact that EGM reached the market **about 3 years the industry got around to fully defining and recognizing the need.**

Thanks to the patience of our investors and the determination of the company's leading team, we have managed to survive the years and reach the time when we are requesting by utilities to present our solution and discuss its installation.

It is agreed upon by a variety of market researchers and industrialists that the smart grid market is very large and is expected to reach over \$50 Billion annually by 2022.

Competition

Two groups are competing in a market that, as noted, has reached maturity, and is growing rapidly:

Group 1: Dozens (and perhaps few hundred) small, medium and large software companies that approach utilities and offer the ability to produce some data if they receive measurements from the field.

The competitors from this group need information gathered by the utilities, and in fact there is not much information like that, because utilities do not have a good way to measure and collect it.

Group 2: about 10 – 12 companies that monitor the grid, collect the raw data and produce useful insight for grid management.

Group 2 competitors offer companies a complete solution, which includes measurement, data collection, analysis and presentation useable insight to the users.

This means that our competition is with another 10-12 companies, mostly small, or divisions buried in larger companies. Our most direct competitor is Sentient, however we are rarely encountering them in the market. Our biggest issue has not been competition, but the slow movement of utility companies to adopt advanced solutions, but this is changing and we have a remarkably opening for our solutions.

From conversations with US analysts, we have no doubt that EGM is a technology leader.

In the transmission market segment – we have no competition. We are finalizing high voltage sensors for transmission lines which work seamlessly with our distribution sensors, no one else has similar sensors for the transmission market.

We hope that the planned installations will soon make us a recognized global leader by the end of 2019. The market is huge and there is room for everyone, and there is no doubt that competition helps to develop the market.

Beyond the above, we pay our attention to our customers and not competitors.

Marketing and Sales

Attached to this letter, please find a business development review.

I would like to elaborate a few words on the relationship we are developing with Israel Electricity Corp., IEC, which is very helpful in entering the markets.

In the Romania project, IEC enters into an agreement with the Romanian Electric Company, where IEC will provide two systems: its security system and EGM's system.

We will sign back-to-back agreement with IEC.

Such a structure improves the issue of payments and helps to obtain financing for working capital.

Fund Raising

With great effort and dedication, EGM's technical team has developed a technology that is considered the best in the world.

EGM sales efforts are described in the attached Business Development overview.

All of the above was achieved by relatively small capital investments of aprox. \$9M. Companies in our field have so far spent between 3 and 5 times as many of us.

Since we must translate our large potential into high corporate value, we have to invest more funds in sales and businesses development activities, and mainly for that purpose we need to raise more funds.

There are several strategic and semi-strategic potential investors that are interested in the company, but the time to close deal with them is very long.

Therefore, we are in dialogue with other investment entities as well.

In order to enable the company to raise money without pressure and to continue the business momentum, the possibility of another internal round of up to \$ 3 million was examined.

In light of the positive response of some of the investors, especially KT, which expresses great confidence in the company, we will approach in the next few days all shareholders to take part in this round.



Upon circulation of the proposal to the shareholders, we will hold a webinar where everyone can participate, ask questions and receive answers.

In addition, I invite you all to contact me personally any time with any questions.

Sincerely,

Amir Cohen, CEO

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Business Development - Update



1 General

The purpose of this appendix is to present the latest main business development, marketing and sales.

2 USA

2.1 JV with NYPA / USA

EGM and NYPA¹ agreed to establish a joint-venture, aim to cover the following major tasks:

1. Develop a mutual plan to get EGM system approved for US utility transmission line applications
2. Install EGM system on NYPA grid to perform validation, verification and approval for the US grid application
3. Provide “indirect” assistance to develop sale channels and stimulate local demand for EGM system in the US market (conferences, articles)
4. Define a compensation for successful introduction of EGM in the US market and initiating revenue growth.

Next commercial steps:

1. Letter of Intent (LOI) from NYPA to define the certification and approval process for EGM systems for the US utility market application.
2. Develop EGM System confirmation and validation plan
3. Full scale installation upon completion of validation tests

2.2 Distribution utility / USA

EGM in a dialogue with several distribution utilities in the US (i.e. National Grid) to establish cooperation - in the field of distribution - similar to the cooperation that was decided to establish with NYPA regarding transmission.

2.3 EGM-USA

As a result of the above, EGM intend to setup a subsidiary in the USA. The goal of this subsidiary is to handle the sales in the Americas, and since we started thinking about an IPO, this platform will enable a conversion – aim to increase the company valuation.

3 IEC

3.1 Distribution

EGM and IEC are about to sign an agreement to build a pilot in the distribution system in the Southern district of IEC, in a method of “sell or return”.

¹ NYPA is one of the largest and most important transmission utilities in the US

Thus, after a very long process which was significantly delayed due to broad organizational changes in IEC ². The pilot will be installed within few months.

3.2 Transmission

As a result of the advances of the distribution project, IEC and EGM decided to go to a transmission pilot as well. The basic approvals for the project were given in a meeting held by July 18, 2018 in IEC, including instructions for conducting experiments in the transmission high voltage lines. We plan to conduct the experiments toward the end of the year.

3.3 Joint Venture

IEC and EGM have decided to cooperate in projects abroad. IEC, through a dedicated business unit, sells Grid cyber security systems, which are considered to be the most advanced in the world.

In this framework, we are now working together in Romania (see 4 below), and plan to operate in Poland, Bulgaria, Italy and England.

4 Romania

Under G2G³ agreement between Israel and Romania governments, IEC is implementing a large project to upgrade the Romanian grid, including embedding security capabilities, electricity loss reduction actions, reliability and resilience improvements, and DER⁴ management.

IEC has chosen EGM to implement its Meta-Alert™ system in the project.

The first project will start in the transmission

Kick-off meeting was held in Bucharest on April 26, 2018.

By July 24th 2018 another meeting held in Bucharest to discuss the project and define time frame for both commercial agreement as well as installations in the field

All plans, contracts trials and other preparations will be held during the next 9 months. Large scale of commercial installations will start afterward.

In addition to the aforesaid, it was decided to expand the activity in Romania to the distribution grid as well.

Kick-off meetings took place at the beginning of October 2018, and it was agreed that initial installations are expected by mid of 2019.

² There were few different suppliers proposed different type of equipment which were rejected by IEC

³ Government to Government

⁴ DER – distributed energy resources management become one of the big challenges of utilities all over the world

5 Poyry

In 2016, EGM has established a strategic cooperation with Poyry, one of the three largest global consulting & engineering companies, in the field of Power & Energy, for the introduction, and implementation of EGM's smart grid solution in the European power market.

The parties have established unique models for joint work on pilots, and full-scale projects, and are currently in discussions with various DSO's and TSO's overall Europe, regarding potential projects and specific proposals they've submitted jointly for pilot projects (including R&D programs) and full-scale projects.

Here is a summary of the status of the most advanced discussions that EGM & POYRY have on specific projects:

5.1 APG, Austria

APG is the TSO Company of Austria. The first stage of the project, will include a pilot project on a 400KV line. APG and the parties held a meeting by end of August 2018 (after completion of the internal discussion of APG technical departments) to discuss the detailed scope of the project, and the timeline for implementation. The sensors which will be tested at IEC and NYPA be capable of working safely on 400KV lines.

5.2 Norgstnett, Norway

Norgstnett is a Norwegian DSO company. A detailed proposal was submitted, for a first stage of the project, the pilot stage, was submitted. As next step, Norgstnett shall select the exact location & line on which the pilot will be installed, and the parties shall have a site visit to define the detailed scope.

5.3 Next steps for the overall cooperation in Europe:

As soon as POYRY and EGM will complete and sign with APG, other project will be initiated.

6 Albania

EGM has completed a pilot project for OSHEE, the distribution company of Albania, during H1 of 2017.

After the successful pilot, OSHEE has requested EGM to discuss a commercial project. As first step, and as per the need of OSHEE, EGM has submitted a proposal for a commercial project of €950K in H1, 2018.

In view of the high-level losses on the grid, OSHEE is required to plan and carry out activity to reduce losses. In June 2018, OSHEE has requested EGM to submit a larger project, at €10M volume to include also a 'Procurement Financing' package.

This project plans to cover the most problematic grid segments of OSHEE, in the Tirana region, where the grid losses are the highest. By end of July 2018, the Parties met to discuss the next steps and the timeline for the financing process of the €10M project.

Upon successful implementation of the 1st stage of the project (i.e. the 10M), the project is expected to be extended by an additional stage of €30-40M.

We expect to start the first project by the mid-2019.

7 Bulgaria

EGM won a small tender of \$65,000 to supply DLR system for demonstration in the Bulgarian grid.

By the beginning of October 2018, EGM met with Bulgarian Deputy of energy Minister, to discuss installation of EGM system in the transmission grid.

Such project is estimated by €60M, and it will be deployed in four stages along four years.

IEC is also involved with its security system.

About \$0.5M initial installation expected to be in the second half of 2019.

8 Namibia

EGM is in discussions with Nampower, Namibia Power Company, since the October 2017, regarding a project on Nampower's transmission grid.

As a first stage, Nampower is considering a project of 400 KM on Nampower's 400KV line.

EGM has met Nampower, in Namibia on July 19th to discuss the scope of the project.

We are in current dialog and expect contract to be sign by 2Q 2019.

9 Zambia

Since the beginning of 2018, EGM is in discussions with ZESCO, the Zambian Electricity Company, regarding a project in Zambia. The project shall be implemented in few stages and may cover the full grid of ZESCO.

EGM met ZESCO, in Zambia on July 17th to discuss the scope of the project, the stages.

We are in current discussion to coordinate the next steps.

10 Colombia

The utilities in Colombia have to improve the efficacy by reducing losses from between 15% and 25% to less than 10%. In that frame we have approached 8 Colombian utilities.

EGM continues the dialog with two of them via its rep in Colombia.

Our rep in Colombia is also active in Peru.

11 Brazil

As part of the understanding of the electric utilities for the need to digitalize their grids, and since our technology is highly appreciated, Energisa, a Brazilian holding company, owns transmission and distribution grids has approached us. We entered into a dialog, and a visit in EGM is expected in early 2019.