Payton Planar Magnetics Ltd.

Annual Report 2022

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The Board of Directors' Report[1] on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries for the year ended on December 31, 2022

***Notice**: This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events. Management emphasizes that the assumptions do not in any way imply commitment towards realization. The outcome of which is subject to certain risks and other factors, which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.*

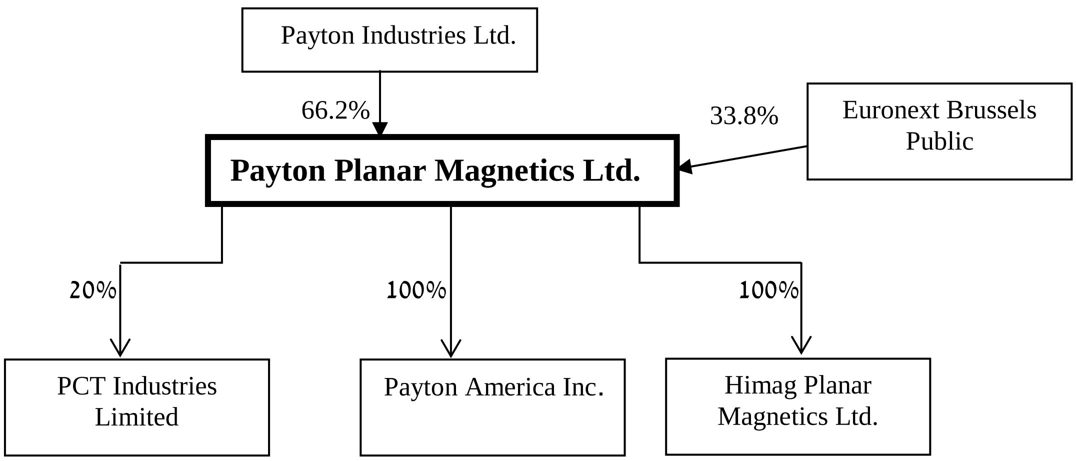
Reference in this report to forward looking statement shall be by stating that such information is given by way of estimation, evaluation, assessment, intentions, expectations, beliefs and similar terms, but it is possible that such information shall be given under other phrases.

1. <u>A concise description of the corporation and its business environment</u>

A. The Group

The Group includes Payton Planar Magnetics Ltd. ("the Company"), its consolidated subsidiaries and it's Investee.

The Company holds two fully owned subsidiaries: (1) Payton America Inc., in Florida, USA, which mainly engages in the manufacture and marketing of transformers for the US domestic market; and (2) Himag Planar Magnetics Ltd., in the UK, which mainly engages in the development, manufacture and marketing of transformers and serves as the Group base for the UK and the European markets. The Company also holds an affiliated company, a strategic investment of 20% in a Hong-Kong holding company, PCT Industries Limited ("PCT") that fully owns a manufacturing subsidiary in China. The Chinese manufacturing subsidiary mentioned above is engaged in manufacturing and assembly, serves as one of Payton's major Manufacturing Partners.



[1] The financial statements as at December 31, 2022 form an integral part thereof.

B. The Group's main fields of activity and changes that occurred in the period from January to December 2022

The Company, an Israeli high-tech enterprise, develops manufactures and markets Planar and Conventional transformers worldwide. The Company was founded in order to revolutionize the traditional approach to the design and manufacture of transformers through the concept of planar transformers. The Company completed its initial public offering in 1998 on the EuroNext Stock Exchange.

- The COVID-19 crisis

During year 2022, it seems that most countries over the world conduct their activities side by side to the COVID-19 epidemic and it has no substantial impact on the Group's business activity. China and Hong Kong were the last countries to keep restrictions that were also waived out in December 2022. So in fact all restrictions on transportation within China and outside of China were also fully canceled at the end of 2022.

- Global business environment changes

In 2022, instability and uncertainty trends became dominant in the global business environment. A high level of raw materials prices, long lead-time, high logistic cost, high man power costs and push-out of scheduled deliveries up on customer needs were characterizing year 2022. Management believes these trends are not expected to end in the coming year and will continue in 2023, but some of them are in the beginning of a scaling down trend. The Company will continue to follow-up these global trends and update accordingly.

Another factor that affects the Group's activity is the ***devaluation of the US$*** against the local NIS, the Euro and the Pound, which mainly increases local labor costs and other operating costs in Israel and the United Kingdom. During year 2022 the US$ devaluation became a more significant factor.

Inflation affects - Since the functional currency of the Group's activity is the US dollar, and since the Group does not use bank loans, management believes there is no material effect of the inflation in Israel and/or worldwide on the Group's business activity, except for some adjustments needed in payroll.

Increase of global interest rate - since the Company does not hold loans, the Group is not expected to have a material negative impact due to the increase in the global interest rate, on the contrary, deposits' income increased.

The Group continues to follow-up and monitors all the above mentioned global developments trying to minimize any impact including maintaining its close contacts with its subcontractors, suppliers and customers, all in order to adjust its operations in the best possible way.

It is noted that the above statement is a forward-looking statement as defined above.

On March 28, 2022 - the Company's Board of Directors decided to pay the shareholders a dividend at the amount of USD 8,023 thousand (USD 0.454 per share), paid in full in June 2022.

Pursuant to the amendment of the law for the Encouragement of Capital Investments executed on November 15, 2021 (the temporary order*), per Company's decision, this dividend was subject to a beneficiary corporate tax rate*, at the amount of USD 0.9 million, paid in full in April 2022.

** see Note 18A(4) to the 2022 yearly Report*

On March 28, 2023 - the Company's Board of Directors decided to pay the shareholders a dividend for the financial year 2022, at the amount of USD 8,482 thousand (USD 0.48 per share), expected to be paid in June 2023.

C. Sales

The Group's main customer base is related to the telecom/datacenter, automotive and power electronic market. Additional markets the Group aims are Industrial and medical markets. During 2022, the Group kept operating its activities in: North America, Europe, Japan, China, S. Korea, India and UK.

Sales for the year ended December 31, 2022 amounted to USD 60,270 compared with USD 43,980 thousand for the year ended December 31, 2021, representing 37% increase that reflects the growth in demand of several projects as it was reflected in the Group's increased order backlog. Revenues for the year ended 2022 consisted of recurring sales to existing customers and sales to new ones.

The Sales were generated primarily from telecom/datacenter, automotive companies and industrial companies.

D. Principal customers

The consolidated sales revenues include sales to major customers (which make up in excess of 10% of the sales of the Group).

	For the year ended December 31	For the year ended December 31
	2022	2021
Quanta Computer Inc.[1]	[3]29%	21%
Customer B[2]	17%	17%

(1) Customer related to the Telecom/Datacenter industry.
(2) Customer related to the Automotive industry.
(3) Includes sales to its subsidiaries: QMB Co., Ltd, and Tech-Front (Shanghai) Computer Co., Ltd.

E. Global Environment and External factors effect on the Group's activity

- In 2022, instability and uncertainty trends became dominant in the global business environment. A high level of raw materials prices, long lead-time, high logistic cost, high manpower costs and frequent changes in scheduled deliveries up on customer needs were characterizing year 2022.
- Another factor that affects the Group's activity in 2022 is the ***devaluation of the US$*** against the local NIS, the Euro and the Pound, which mainly increases local labor costs and other operating costs in Israel and the United Kingdom. During year 2022 the US$ devaluation became a more significant factor.
- Inflation also started rising up in year 2022, but, since the functional currency of the Group's activity is the US dollar and since the Group does not use bank credit, management believes there was no material impact of the inflation in Israel and/or abroad on the Groups' activity, except for the need for some payroll adjustments.
- The increase of market interest rates on 2022 increased the Group's income from bank deposits.
- With regards to the COVID-19 crisis, during year 2022, it seems that most countries over the world conduct their activities side by side to the COVID-19 epidemic and it has no substantial impact on the Group's business activity. China and Hong Kong were the last countries to keep restrictions that were also waived out in December 2022. So in fact all restrictions on transportation within China and outside of China were also fully canceled at the end of 2022.

Company's Management is closely monitoring all above-mentioned market fluctuations and will continue to track their effects on the Groups' activity. Company's Management is taking necessary actions in order to cope with the situation, to the greatest extent possible.

As a result of the Company's conservative cash policy, management estimates that the Group is financially strong and no liquidity problems are expected in the foreseeable future.

F. Marketing

The Group participates in leading electronic exhibitions. Company is focusing on serving Key customers with routine visits and latest technology development updates.

The Company strategy, which enables fulfilling the mission of gaining worldwide recognition and market share growth, is:

* Targeting world leaders in their fields. Having these leaders as our customers is convincing other second tier companies to adopt the Planar Technology.
* Focusing on wide-growth-potential customers with a need for advanced technology.
* To use the Group's own sales team as well as its sales representatives' network as sales channels.
* Expanding our activity in Japan, Europe, North America, India and S. Korea markets.
* Deepening activity with existing customers.
* Maintaining the wide presence and global recognition.

G. Manufacturing

The Group intends to expand and diversify its manufacturing capacity and capabilities, through manufacturing partners in the Far East in China and the Philippines. This activity objective is to increase flexible production capacity, to enable mass production quantities, lower products costs and increase competitiveness.

H. Competition

In the recent years there has been an increasing interest of magnetics manufacturers to get into the Planar field. We can note that there are more and more companies that are trying to design and manufacture the planar components. However, the Company believes in its technology advantage Know-how and capabilities. It estimates it could generally benefit from an increasing competition in the market due to greater exposure of the technology.

The Company cannot estimate its future market share. The following companies are considered as its potential competitors: Pulse, Standex and Coilcraft - from the U.S.A. and Premo - from Spain.

I. Order Backlog

As at December 31, 2022 this backlog amounted to USD 43,839 thousand, and as at March 13, 2023 to USD 44,453 thousand (December 31, 2021 - USD 31,525 thousand). The backlog is composed of the Company and its two fully owned subsidiaries firm orders.

	Order Backlog US$ in thousands	
	December 31, 2022	**March 13, 2023**
Delivery due date within first quarter of 2023	10,957	2,959
Delivery due date within second quarter of 2023	11,593	8,119
Delivery due date within third quarter of 2023	10,079	14,444
Delivery due date within fourth quarter of 2023	8,382	8,888
Delivery due date is after 1.1.2024	2,828	10,043
Total	43,839	44,453

It should be noted that in light of the global uncertainty, which has intensified as at the date of signing these financial statements, it appears that customers tend to postpone scheduled deliveries up on their needs. Such changes of delivery dates may lead to a different sales volume than indicated above according to the quarterly order backlog split.

It is noted that the above statement is a forward-looking statement as defined above.

J. Framework agreements that do not constitute binding orders

As of December 31, 2022 and the date of signing the financial statements, the Group has no material framework agreements.

K. Human Resources

A factor of importance to the Company's success is its ability to attract, train and retain highly skilled technical, and more specifically, qualified electronics engineers with experience in high frequency magnetics and with a comprehensive understanding of high frequency magnetics, managerial, sales and marketing personnel. Competition for such personnel is intense. The Company constantly betterments its personnel and has so far succeeded in recruiting the appropriate personnel as required. This personnel is important in maintaining the pace in research, design and technical customer support. The Company is confident however, that the challenges inherent in its operations will satisfy its Company's future recruitment needs. By the end of 2022, the Group employed about 178 people. The Company retains employment contracts with most of its key employees and is of the opinion that relations with its employees are satisfactory.

L. Quality Control

Payton Group has the ISO9001:2015 certification for its quality system. It has UL recognition for the use of several Electrical Insulation Systems classes B, F and H in its products, also has recognition of the construction of a family of magnetic components as complying with the requirements of UL and IEC 60950 standards of safety. Payton is authorized by an accredited testing agency to apply the CE mark to many of its commercial transformers.

Payton also meets recognized international safety standards and conforms to MIL.T, CSA VDE and other standards.

The Company is certified with ISO14001:2015 (Environmental standard). Payton is a Lead Free company as required by the 2015/863/EU RoHS directive.
The Company is certified with two important International Quality Management Standards: for Automotive - IATF 16949:2016 and for Space & Avionic - AS9100 (at Payton America only).

M. Objective and Business Strategy

Since its incorporation, Payton has provided innovative and affordable Planar Magnetic solutions to the Power Electronic Industry.
By doing so, it has become the undisputable worldwide market leader in the Planar Magnetics Technology, with a customer base of leading technology-driven OEM's.
Payton plans to maintain its lead and continue to facilitate the transition of the Magnetics market to the Planar Technology by:

1. Maintaining business efficiency, operational efficiency and constant search for cost saving solutions.
2. Maintaining and strengthening its current customer base. This will enable Payton to build a track record as a reliable high-volume Planar component supplier to leading OEM's.
3. Selectively developing additional key strategic customers, especially in Japan, North America, India, S. Korea in order to further propagate Payton Planar unique technology.
4. Aiming and focusing on new high growth segments such as Automotive (EV/HEV) in addition to the present Telecom and industrial markets.
5. Continuing to educate the Power Electronics industry about Planar technology.
6. Continuing to develop its mass production expertise and capacities to a level that will enable Payton to address the large price-sensitive segments and mass production quantities segments of the global Magnetics market.
7. Payton is constantly looking for business opportunities to expand its core business with synergetic product lines.

It is noted that the above statement is a forward-looking statement as defined above.

N. Coming year outlook

In 2023 the Group is preparing to cope with the uncertainty and instability of global markets. There are some indicators for a global slowdown, push-out of scheduled deliveries up on customer needs, and great caution needs to be taken with regards to purchases forecast and inventory planning. The raw materials prices are still high and no significant price reduction is expected in coming future. This uncertainty atmosphere requires extra caution in conducting the whole Company’s business activity. At this stage, it is not possible to assess the extent of the impact of the trends described above on the Group's activities.
The Group plans to continue investing efforts to improve and efficient its production capacity as well as integration of automation. In addition to its normal course of business the Group will continue its ongoing searching of new markets as well as other business opportunities providing innovative solutions and new technologies as in order to keep expanding its customer base, core business, enlarging its market share and maximize business challenges to the greatest possible extent.
The Group will also continue its ongoing search for business and M&A opportunities, synergetic to its core business, in order to expand its activity.
It is noted that the above statement is a forward-looking statement as defined above.

O. Risk Factors

	Major Impact	Medium Impact	Small Impact
Macro Risks		The global business environment changes have many implications including the following: ▪ Raw material increased costs and long lead-time. ▪ Difficulties in recruiting manpower and increase of labor costs. ▪ Changes and push-out of scheduled deliveries by customers.	▪ Currency exposure during credit term period with regards to invoices issued in local currency. ▪ Evaluation/Devaluation of the local currencies, NIS and GBP, reflects an increase/decrease in labor costs and other operating costs. ▪ Changes in regulation, changes in international tariffs and increase in shipping and transportation costs.
Market Risks		▪ Metals prices fluctuations especially: Copper, Aluminum, Tin and Silver, which are part of the transformers bill of materials. ▪ Automotive industry - alongside the opportunity for a large growth there is an inherent risk in this industry, especially during a period of economic uncertainty where a decrease in demand could be material. In addition, the growing competition in this industry creates a constant pressure to reduce prices and margins.	
Specific Risks	Manufacturing partners dependency.		

P. Current Shareholders position

Shareholder name	Number of shares	Percentage of the outstanding shares	Comments
Payton Industries Ltd.	11,694,381	66.2%	Israeli company traded in the Tel Aviv stock exchange.
Public	5,976,394	33.8%	Listed on the EuroNext since June 1998.
Total	17,670,775	100.0%	Total outstanding shares.

2. Financial position

A. Statement of Financial Position as at December 31, 2022

***Cash and cash equivalents, Short-term Deposits and marketable securities* -** these items amounted to a total of USD 45,237 thousand as at December 31, 2022 compared to USD 38,625 thousand as at December 31, 2021. Despite the dividend payment during year 2022, Company presents increase in Cash and cash equivalents attributed mainly to Company's profitability in addition to the classification of the long-term deposits, at the end of the current period, as a short-term deposits.

The Group's management believes, a solid financial position is an important factor in order to successfully overcome times of crisis.

***Other accounts receivable* -** these amounted to USD 2,255 thousand as at December 31, 2022 compared with USD 3,226 thousand as at December 31, 2021. The decrease in this item is mainly due to IFRS 15 implementation according to which the Company recognized revenues over time (instead of upon delivery) and from increase in advanced payments made to suppliers. Revenues recorded prior to delivery are recorded against "contract assets", which are presented among "other accounts receivable". As at December 31, 2022 such contract assets amounted to approximately USD 1.3 million compared to USD 2.5 million as at December 31, 2021.

Long-term deposits - amounted to USD 5,020 thousand as at December 31, 2021. These 18 months period bank deposits were classified as short-term deposits as at December 31, 2022.

***Investment in equity accounted investee* -** represents the investment in PCT[2] (20%) engaged in manufacturing and assembly that serves as one of the Company's major manufacturing Partners in China.

The investment amounted to USD 1,427 thousand as at December 31, 2022 compared with USD 974 thousand as at December 31, 2021. The increase resulted from investee's profit increase.

***Other investment* -** as at December 31, 2022 this amounted to USD 900 thousand representing the Company's investment in shares and options of an Israeli startup (less than 20% of the startup's share capital) in the field of wireless charging solution. The Company has a professional and business interest to become involved in new developments in this area.

Trade payables - amounted to USD 1,419 thousand as at December 31, 2022 compared with USD 4,088 thousand as at December 31, 2021. The decrease in this item influenced mostly from purchases made near the report date and resulted mainly due to advance payment and shorter payment terms in favor of subcontractors.

Employee benefits (non-current liabilities) - amounted to USD 414 thousand as at December 31, 2022 compared with USD 731 thousand as at December 31, 2021. The decrease in this item influenced mostly from the effect of interest rate increase on post-employment defined benefit obligation.

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[2] See paragraph 1A to 2022 Board of Directors' report - ***"The Group"***, an integral part of 2022 yearly Report.

B. Interest rate, Currency and Market exposure - Data and Policy

Interest rate exposure

The Group's interest rate exposure relates mainly to its balance of cash equivalents and bank deposits. These balances are mostly held in USD bearing interest rates given by banks (during 2022, between 1% to 6%, increasing over the year).

Data on linkage terms

The financial statements of the Company reflect the functional currency of the Company, which is the USD.
Most of the Group's sales (93%) in the reported periods were in USD or were linked to the USD. Approximately 4% of the Group's sales in 2022 were in Euro, 1% were in NIS, and about 2% were in GBP.

During 2022, approximately 96% of the costs of raw material and finished goods purchased by the Group were in USD or were linked to the USD.
During 2022, approximately 82% of the Group's salaries were in New Israeli Shekel ("NIS") and about 7% were in GBP.

Currency exposure risks

Since most of the Group's sales and purchases were in USD or linked to the USD, the Group's gross profit was exposed to the changes in exchange rates of the USD in relation to the Euro, the GBP and to the local New Israeli Shekel ("NIS") mostly with regards to labor costs and other operating costs (see also Data on linkage terms, above).

The Group is exposed to erosion of the USD in relation to the NIS and the GBP. Most of the Group's salaries and other operating costs are fixed in the local currencies. Devaluation of the USD in relation to the NIS and the GBP increases the Group's labor costs and thus influences its operating results.
Devaluation of the USD in relation to Euro and the GBP leads to a decrease in Group's assets held in those currencies.
The Company is subcontracting in China. Devaluation of the USD with relation to the Chinese currency has an indirect effect on the Group's cost of goods sold.

Market risks

During 2022 the Company used, from time to time, some derivatives as a tool for hedging, mainly in order to hedge its labor costs paid in NIS. With regards to all other operating costs, there is no need to use derivatives since hedging is being kept inherently as part of the operational activity.

C. Operating results

Summary of Consolidated Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Total 2022	Total 2021	Quarter 10-12/22	Quarter 7-9/22	Quarter 4-6/22	Quarter 1-3/22
Revenues	60,270	43,980	14,382	16,155	18,950	10,783
Cost of sales	(35,778)	(26,607)	(8,629)	(9,545)	(11,096)	(6,508)
Gross profit	*24,492*	*17,373*	*5,753*	*6,610*	*7,854*	*4,275*
Development costs	(1,545)	(1,481)	(392)	(355)	(444)	(354)
Selling & marketing expenses	(1,932)	(1,791)	(472)	(468)	(506)	(486)
General & administrative expenses	(3,864)	(3,734)	(824)	(959)	(1,155)	(926)
Other income, net	57	1	46	1	-	10
Operating profit	*17,208*	*10,368*	*4,111*	*4,829*	*5,749*	*2,519*
Finance income (expenses), net	200	25	334	67	(224)	23
Share of profits (losses) of equity accounted investee	481	(52)	128	162	139	52
Profit before taxes on income	*17,889*	*10,341*	*4,573*	*5,058*	*5,664*	*2,594*
Taxes on income	(3,972)	(1,821)	(779)	(902)	(941)	(1,350)
Net profit for the year/period	*13,917*	*8,520*	*3,794*	*4,156*	*4,723*	*1,244*
Other comprehensive income (loss) items that will not be transferred to profit &loss						
Remeasurement of defined benefit plan	226	(12)	84	-	-	142
Share of other comprehensive income (loss) of equity accounted investee	(28)	7	(12)	(6)	(12)	2
Total other comprehensive income (loss), net of tax	198	(5)	72	(6)	(12)	144
Total comprehensive income for the year/period	*14,115*	*8,515*	*3,866*	*4,150*	*4,711*	*1,388*

General Note: The Group is exposed to abrasion of the USD in relation to the NIS, Euro (€) and the Pound (£). Most of the Group's salaries and other operating costs are fixed in local currencies. Revaluation/devaluation of the local currencies drives to an increase/decrease in labor costs and other operating costs, thus, affects the operating results of the Company.

Sales revenues - The Group's sales revenues for the year ended December 31, 2022 were USD 60,270 thousand compared with USD 43,980 thousand for the year ended December 31, 2021, representing 37% increase that reflects the growth in demand of several projects as it was reflected in the Group's increased order backlog.

Gross profit - The Group's gross results for the year ended December 31, 2022 were USD 24,492 thousand (41%), compared with USD 17,373 thousand (40%), in the year ended December 31, 2021. The gross margin is influenced mainly by the sales products mix and production locations.

Development costs - Payton's R&D strategy is aimed on maintaining the leadership of the Planar Technology. The R&D department works in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were based upon time expended by the department's employees. The Group's development costs for the year ended December 31, 2022 were USD 1,545 thousand compared with USD 1,481 thousand in the year ended December 31, 2021

Selling & marketing expenses - The Group's selling & marketing expenses are mainly comprised of: (1) commissions to the Group's reps' and Marketing Personnel, which are calculated as a portion of sales, however it is further explained that not all the sales are subject to reps' commissions and of (2) other selling expenses (fixed) based on management policy. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network. The Group's selling & marketing expenses for the year ended December 31, 2022 amounted to USD 1,932 thousand (3%) compared with USD 1,791 thousand (4%) in the year ended December 31, 2021. In year 2022 selling expenses mainly travel expenses and exhibitions costs, have resumed gradually. Management believes these costs will continue to increase as traveling and exhibitions will expand.

General & Administrative expenses - The Group's General & Administrative expenses for the year ended December 31, 2022 amounted to USD 3,864 thousand compared with USD 3,734 thousand in the year ended December 31, 2021. The increase relates mainly to welfare and motivation activities for Company's employees.

Finance income, net - The Group's finance income for the year ended December 31, 2022 amounted to USD 200 thousand compared with USD 25 thousand for the year ended December 31, 2021. This increase is mainly explained by the increase of the market interest rate on bank deposits during the year.

Share of profits (losses) of equity accounted investee - The Group's share in investee's profits for the year ended December 31, 2022 amounted USD 481 thousand compared with its share in investee's loss at the amount of USD 52 thousand for the year ended December 31, 2021. This increase is mainly attributed to the business results improvement of the investee in China.

Taxes on income - for the year ended December 31, 2022 amounted to USD 3,972 thousand compared with USD 1,821 thousand in the year ended at December 31, 2021. The increase in the tax expenses is a result of two factors: (1) Profit increase (2) Previous year's tax expenses - On April 2022 the Company paid an amount of USD 919 thousand following Company's decision to apply the Temporary Order to the Law for the Encouragement of Capital Investments enabling it a beneficiary corporate tax rate on its exempt profits. See also Note 18A(4) to the 2022 yearly Report.

Information regarding - Transactions with related parties *(pursuant to note 17 G to the Consolidated Financial Statements as at December 31, 2022)*

Compensation and benefits to key management personnel and interested parties (including directors) that are employed by the Group:

	Year ended December 31				December 31	
	2022		2021		2022	2021
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Short-term employee benefits		**500**		607	**109**	146
Post-employment benefits		**(48)**		27	**33**	128
	5	**452**	5	634	**142**	274

Compensation to key management personnel (including directors) that are not employed by the Group:

	Year ended December 31				December 31	
	2022		2021		2022	2021
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Total compensation to directors not employed by the Group	**3**	**39**	3	42	**10**	11
Total compensation to key management personnel not employed by the Group (*)	**2**	**1,571**	2	1,491	**706**	621
Accounts receivable- The Parent Company	**-**	**-**	-	-	**82**	128

(*) Management fees and related benefits to Wichita Ltd. (see Note 14A) and to Yaarh-Looking To The Future Ltd. (see Note 14B) include an amount of USD 184 thousand (year ended December 31, 2021: USD 183 thousand) and an amount of USD 251 thousand (year ended December 31, 2021: USD 249 thousand), respectively, recorded as selling and marketing expenses.

Inter-company transactions between the Company and its two fully owned subsidiaries (Payton America Inc. and Himag Planar Magnetics Ltd.) include, inter alia, the following: engineering support, purchasing and subcontracting, marketing, administrative and management services. All the inter-company transactions are being eliminated within these consolidated financial statements.

3. Liquidity

A. Operating activities

Cash flows generated from operating activities for the year ended December 31, 2022, amounted USD 11,634 thousand, compared with the cash flows generated from operating activities of USD 7,156 thousand for the year ended December 31, 2021. The increase in cash flows from operating activities generated mostly from the profit increase influenced also from other non-cash adjustments and changes in assets and liabilities.

B. Investing activities

Cash flows used for investing activities in the year ended December 31, 2022 amounted USD 6,409 thousand compared with cash flows used for investing activities of USD 8,914 thousand in the year ended December 31, 2021. During year 2022 most of the cash flows used for investing activities used for investments in bank deposits, purchase of fixed assets and acquisition of other investment.

C. Financing activities

Cash flows used for financing activities for the year ended December 31, 2022, amounted USD 8,023 thousand, representing a dividend payment (announced March 28, 2022) that was paid on June 2022.
Cash flows used for financing activities for the year ended December 31, 2021, amounted USD 7,422 thousand, representing a dividend payment (announced March 24, 2021) that was paid on June 2021.

4. Financing sources

The Group financed its activities during the reported periods from its own resources.

5. Subsequent Events

On March 28, 2023, the Company's Board of Directors decided to pay to its shareholders a dividend for the financial year 2022 at the amount of USD 8,482 thousand (USD 0.48 per share), to be paid during June 2023. The dividend is submitted to a tax withholding of 15%.

6. External factors effects

- Global trends of instability and uncertainty trends in the business environment (including some indicators for a global slowdown).
- For the effect of ‘Risk Factors’ - see paragraph 1O above.

To the best of the Board of Directors’ and management’s knowledge, except the above mentioned, there have been no significant changes in external factors that may materially affect the Company’s financial position or results of operations.

7. Statement by senior management in accordance with article 12, § 2 (3°) of the Royal Decree per 14.11.2007

Pursuant to article 13 § 2,3 of the Royal Decree of 14 November 2007, David Yativ Chairman of the Board of Directors declares, on behalf of and for the account of Payton Planar Magnetics that, as far as is known to him,

a) The financial statements at December 31, 2022 are drawn up in accordance with IFRS-reporting as adopted by the European Union and present a true and fair view of the equity, financial situation and results of the company

b) The report gives a true and fair view of the main events of the financial year, their impact on the financial statements, the main risk factors and uncertainties, as well as the main transactions with related parties and their possible impact on the financial statements.

The Company's Board of Directors wishes to thank our shareholders for their continuance trust and belief.

The Company's Board of Directors wishes to express its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

Ness-Ziona, March 28, 2023.

David Yativ **Chairman of the Board of Directors**	**Doron Yativ** **Director and C.E.O.**

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Independent Auditors' Report

To the Shareholders of Payton Planar Magnetics Ltd.

Opinion

We have audited the consolidated financial statements of Payton Planar Magnetics Ltd. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2022, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

As discussed in Notes 3I and 17A to the consolidated financial statements, revenues for the year ended December 31, 2022, are $60.3 million. According to IFRS 15, the Company recognizes revenue from goods with no alternative use over time. The Company's revenues are generated from the sale of goods manufactured according to customer specifications and based mainly on non-cancelable and non-refundable terms. The Company is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Customer-specific goods cannot be sold to any other customer and therefore have no alternative use. Furthermore, and due to the materiality of revenue to the financial statements of the Company, we identified revenue recognition as a key audit matter.

With respect to this audit matter, our main audit procedures included an evaluation of design and implementation and of operating effectiveness of key internal controls surrounding the recording of revenues. We sampled revenues while focusing on transactions recorded close to the year-end and in the beginning of the subsequent period, and checked that such transactions were included in the appropriate period. Our testing included sampling of source documents such as purchase orders and reviewing terms of contracts with customers to obtain evidence that revenues recorded meet the criteria of IFRS 15. We also checked if any credit notes were issued in the subsequent period in order to obtain evidence of proper revenue recognition in 2022

Other Information

Management is responsible for the other information. The other information comprises the Board of Directors' Report on Corporate Affairs.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

European Uniform Electronic Format (ESEF)

In accordance with the draft standard on the audit of compliance of the Financial Statements with the European Single Electronic Format (hereafter “ESEF”), we have audited as well whether the ESEF-format is in accordance with the regulatory technical standards as laid down in the EU Delegated Regulation nr. 2019/815 of 17 December 2018 (hereafter “Delegated Regulation”).

The Board of Directors is responsible for the preparation, in accordance with the ESEF requirements, of the consolidated financial statements in the form of an electronic file in ESEF format (hereafter “digital consolidated financial statements”) included in the annual financial report.

It is our responsibility to obtain sufficient and appropriate information to conclude whether the format and the tagging of the digital consolidated financial statements comply, in all material respects, with the ESEF requirements under the Delegated Regulation.

In our opinion, based on our work performed, the format of and the tagging of information in the official English version of the digital consolidated financial statements as per March 28, 2023, included in the annual financial report of Payton Planar Magnetics Ltd., are, in all material respects, prepared in compliance with the ESEF requirements under the Delegated Regulation.

The engagement partner on the audit resulting in this independent auditors’ report is Guy Anavi.

Somekh Chaikin
Certified Public Accountants (Isr.)
Member firm of KPMG International
Tel Aviv, Israel

March 28, 2023

Consolidated Statements of Financial Position as at December 31

	Note	2022 $ thousands	2021 $ thousands
Current assets			
Cash and cash equivalents	4	**19,003**	22,146
Short-term deposits and marketable securities	5	**26,234**	16,479
Trade accounts receivable	6	**10,374**	9,917
Other accounts receivable	6	**2,255**	3,226
Inventory	7	**4,519**	3,772
Total current assets		**62,385**	55,540
Non-current assets			
Long-term deposits	5	**-**	5,020
Investment in equity accounted investee	8	**1,427**	974
Other investment	9	**900**	-
Fixed assets	10	**10,312**	10,222
Intangible assets		**22**	22
Total non-current assets		**12,661**	16,238
Total assets		**75,046**	71,778

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

Consolidated Statements of Financial Position as at December 31 (cont'd)

	Note	2022 $ thousands	2021 $ thousands
Liabilities and equity			
Current liabilities			
Trade payables		**1,419**	4,088
Other payables	11	**2,103**	2,035
Current tax liability		**922**	809
Employee benefits	12	**557**	649
Total current liabilities		**5,001**	7,581
Non-current liabilities			
Employee benefits	12	**414**	731
Deferred tax liabilities	18G	**1,214**	1,141
Total non-current liabilities		**1,628**	1,872
Total liabilities		**6,629**	9,453
Equity			
Share capital	16	**4,836**	4,836
Share premium		**8,993**	8,993
Retained earnings		**54,588**	48,496
Total equity		**68,417**	62,325
Total liabilities and equity		**75,046**	71,778

David Yativ	Doron Yativ	Michal Lichtenstein
Chairman of the Board of Directors	Chief Executive Officer	V.P. Finance & CFO

Date of approval of the financial statements: March 28, 2023

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

Consolidated Statements of Profit or Loss and Other Comprehensive Income for the year ended December 31

	Note	2022 $ thousands	2021 $ thousands
Revenues	17A	**60,270**	43,980
Cost of sales	17B	**(35,778)**	(26,607)
Gross profit		**24,492**	17,373
Development costs		**(1,545)**	(1,481)
Selling and marketing expenses	17C	**(1,932)**	(1,791)
General and administrative expenses	17D	**(3,864)**	(3,734)
Other income, net	17E	**57**	1
Operating profit		**17,208**	10,368
Finance income	17F	**450**	193
Finance expenses	17F	**(250)**	(168)
Finance income, net		**200**	25
Share of profits (losses) of equity accounted investee		**481**	(52)
Profit before taxes on income		**17,889**	10,341
Taxes on income	18E	**(3,972)**	(1,821)
Profit for the year		**13,917**	8,520
Other comprehensive income (loss) items that will not be transferred to profit and loss			
Remeasurement of defined benefit plan	12A	**226**	(12)
Share of other comprehensive income (loss) of equity accounted investee		**(28)**	7
Total other comprehensive income (loss), net of tax		**198**	(5)
Total comprehensive income for the year		**14,115**	8,515
Earnings per share			
Basic and diluted earnings per share (in $)	19	**0.79**	0.48

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

Consolidated Statements of Changes in Equity for the year ended December 31

	Share capital		Share premium	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands
Balance at January 1, 2021	17,670,775	4,836	8,993	47,403	61,232
Total comprehensive income for the year					
Profit for the year	-	-	-	8,520	8,520
Other comprehensive loss	-	-	-	(5)	(5)
Total comprehensive income for the year	-	-	-	8,515	8,515
Transaction with owners, recognized directly in equity					
Dividend to owners	-	-	-	(7,422)	(7,422)
Balance at December 31, 2021	17,670,775	4,836	8,993	48,496	62,325
Total comprehensive income for the year					
Profit for the year	**-**	**-**	**-**	**13,917**	**13,917**
Other comprehensive income	**-**	**-**	**-**	**198**	**198**
Total comprehensive income for the year	**-**	**-**	**-**	**14,115**	**14,115**
Transaction with owners, recognized directly in equity					
Dividend to owners	**-**	**-**	**-**	**(8,023)**	**(8,023)**
Balance at December 31, 2022	**17,670,775**	**4,836**	**8,993**	**54,588**	**68,417**

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

Consolidated Statements of Cash Flows for the year ended December 31

	Note	2022 $ thousands	2021 $ thousands
Operating activities			
Profit for the year		**13,917**	8,520
Adjustments:			
Depreciation	10	**879**	891
Taxes on income	18E	**3,972**	1,821
Share of losses (profits) of equity accounted investee	8	**(481)**	52
Gain on sale of fixed assets	17E	**(57)**	(1)
Finance income, net	17F	**(18)**	(144)
		18,212	11,139
Change in employee benefits	12	**(130)**	125
Increase in trade accounts receivable	6	**(457)**	(252)
Decrease (increase) in other accounts receivable	6	**971**	(940)
Increase in inventory	7	**(747)**	(310)
Decrease in trade payables		**(2,703)**	(923)
Increase in other payables	11	**68**	130
		15,214	8,969
Interest received	17F	**276**	134
Interest paid	17F	**(17)**	(40)
Income taxes paid, net	18	**(3,839)**	(1,907)
Cash flows generated from operating activities		**11,634**	7,156
Investing activities			
Investments in deposits, net	5	**(4,785)**	(7,399)
Acquisition of other investment	9	**(900)**	-
Investments in marketable securities	5	**-**	(997)
Proceeds from sale of marketable securities	5	**154**	-
Acquisition of fixed assets	10	**(993)**	(523)
Proceeds from sale of fixed assets	10, 17E	**115**	5
Cash flows used for investing activities		**(6,409)**	(8,914)
Financing activities			
Dividend paid	16B	**(8,023)**	(7,422)
Cash flows used for financing activities		**(8,023)**	(7,422)
Net decrease in cash and cash equivalents		**(2,798)**	(9,180)
Cash and cash equivalents at beginning of the year		**22,146**	31,325
Effect of exchange rate fluctuations on cash and cash equivalents		**(345)**	1
Cash and cash equivalents at end of the year		**19,003**	22,146

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

Note 1 - General

A. Reporting entity

Payton Planar Magnetics Ltd. (“the Company”) was incorporated in Israel in December 1992. The address of the Company’s registered office is 3 Ha’avoda Street, Ness-Ziona.
The Company is a subsidiary of Payton Industries Ltd. (the “Parent Company”) and its ultimate controlling shareholder is Mr. David Yativ. The securities of the Company are registered for trade on the Euronext stock exchange in Brussels.

The consolidated financial statements of the Group as at and for the year ended December 31, 2022 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group develops, manufactures and markets planar and conventional transformers and operates abroad through its subsidiaries and distributors.

B. Definitions

In these financial statements –

1. **The Company** – Payton Planar Magnetics Ltd.
2. **The Group** – The Company and its subsidiaries.
3. **Payton Industries Ltd.** – Parent company, traded on the Tel Aviv Stock Exchange.
4. **Subsidiaries** – Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.
5. **Investee companies** – Subsidiaries and companies, the Company's investment in which is stated, directly or indirectly, on the equity basis.
6. **Related party** – Within its meaning in IAS 24 (2009), “Related Party Disclosures”.
7. **Israeli CPI** – The Consumer Price Index as published by the Central Bureau of Statistics in Israel.
8. **NIS** – New Israeli Shekel.
9. **$** – U.S. Dollar.
10. **GBP** – Great Britain Pound.

Note 2 - Basis of Preparation

A. Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 28, 2023.

B. Functional and presentation currency

These consolidated financial statements are presented in U.S. dollars, which is the Company’s functional currency, and have been rounded to the nearest thousand. The U.S. dollar is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

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

* Financial instruments, including derivatives, measured at fair value through profit or loss;
* Deferred tax assets and liabilities;
* Employee benefit assets and liabilities;
* Investment in equity accounted investee

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

D. Operating cycle

The operating cycle of the Group is one year. Thus, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year.

E. Use of estimates and judgments

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

The preparation of accounting estimates used in the preparation of the Group’s financial statements requires management of the Company to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Note 2 - Basis of Preparation (cont'd)

E. Use of estimates and judgments (cont'd)

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Determination of fair value
Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities.

Further information about the assumptions that were used to determine fair value is included in Note 15, on financial instruments.

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

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

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

A. Basis of consolidation

1. Business combinations

Business combinations, including business combinations under common control, are accounted for using the acquisition method.
The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.
The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree and the liabilities incurred by the acquirer to the previous owners of the acquiree. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss.
Costs associated with the acquisition that were incurred by the acquirer in the business combination such as legal and valuation consulting fees are expensed in the period the services are received.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

2. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3. Investment in associates (equity accounted investees)

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. There is a rebuttable presumption that significant influence exists when the Group holds between 20% and 50% of another entity. In assessing significant influence, potential voting rights that are currently exercisable or convertible into shares of the investee are taken into account.

Associates are accounted for using the equity method (equity accounted investees) and are recognized initially at cost. The cost of the investment includes transaction costs. Transaction costs that are directly attributable to an acquisition of an associate are added to the cost of the investment on the acquisition date. The consolidated financial statements include the Group's share of the income and expenses in profit or loss and of other comprehensive income of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

4. Loss of significant influence

Losses recognized under the equity method that exceed the Group's investment in ordinary shares are attributed to the rest of the Group's interests in the investee in the reverse order of their seniority. After the Group's interests are reduced to zero, additional losses of the investee are recognized only to the extent the Group has a commitment to support the investee or has made payments on its behalf. If the investee subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

5. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.
Unrealized gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in these investments. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

B. Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Note 3 - Significant Accounting Policies (cont'd)

B. Foreign currency transactions (cont'd)

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss.

C. Financial instruments

1. Non-derivative financial assets

Initial recognition and measurement of financial assets
The Group initially recognizes trade receivables and debt instruments issued on the date that they are created. All other financial assets are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.
A financial asset is initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of the financial asset. A trade receivable without a significant financing component is initially measured at the transaction price.

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. When the Group retains substantially all of the risks and rewards of ownership of the financial asset, it continues to recognize the financial asset.

Classification of financial assets into categories and the accounting treatment of each category
Financial assets are classified at initial recognition to one of the following measurement categories: amortized cost or fair value through profit or loss.

Financial assets are not reclassified in subsequent periods unless, and only if, the Group changes its business model for the management of financial debt assets, in which case the affected financial debt assets are reclassified at the beginning of the period following the change in the business model.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss:
- It is held within a business model whose objective is to hold assets so as to collect contractual cash flows; and
- The contractual terms of the financial asset give rise to cash flows representing solely payments of principal and interest on the principal amount outstanding on specified dates.

All financial assets not classified as measured at amortized cost are measured at fair value through profit or loss. On initial recognition, the Group designates financial assets at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

1. Non-derivative financial assets (cont'd)

Financial assets that are held for trading and whose performance is evaluated on a fair value basis, are measured at fair value through profit or loss.

Subsequent measurement and gains and losses
Financial assets at fair value through profit or loss
These assets are subsequently measured at fair value. Net gains and losses, including any interest income or dividend income, are recognized in profit or loss.

2. Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: trade and other payables.

Initial recognition of financial liabilities
Financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities
Financial liabilities are derecognized when the contractual obligation of the Group expires or when it is discharged or cancelled.

Offset of financial instruments
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Derivative financial instruments

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities denominated in foreign currencies. Changes in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

4. Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets

1. Recognition and measurement

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When major parts of a fixed asset item have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

2. Subsequent costs

The cost of replacing part of a fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Group and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

3. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets under lease agreements including lands are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

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

Buildings	7-50 years	(mainly 50 years)
Machinery and equipment	3-7 years	(mainly 7 years)
Motor vehicles	7 years	
Computers	3 years	
Office equipment	3-14 years	(mainly 14 years)
Leased lands	70 years	

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

Note 3 - Significant Accounting Policies (cont'd)

E. Intangible assets

Goodwill

Goodwill that arises upon a business acquisition is presented as part of intangible assets. For information on measurement of goodwill at initial recognition, see Paragraph A(1) of this note.

Goodwill, having an indefinite useful life, is not systematically amortized but is tested for impairment at least once a year.

In subsequent periods, goodwill is measured at cost less accumulated impairment losses.

F. Inventories

Inventories are measured at the lower of cost and net realizable value. Inventory is based on the first-in first-out (FIFO) principle and its cost includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

G. Impairment

1. Non-derivative financial assets

Financial assets and contract assets

The Group recognizes a provision for expected credit losses in respect of financial assets at amortized cost and contract assets (as defined in IFRS 15).

The Group has elected to measure the provision for expected credit losses in respect of trade receivables and contract assets at an amount equal to the full lifetime credit losses of the instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, and when estimating expected credit losses, the Group considers reasonable and supportable information that is relevant and available with no undue cost or effort. Such information includes quantitative and qualitative information, and an analysis, based on the Group's past experience and informed credit assessment, and it includes forward looking information.

The Group assumes that the credit risk of a financial asset has increased significantly since initial recognition when contractual payments are past due for more than 120 days.

The Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Group in full or the contractual payments of the financial asset are past due for more than 180 days.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

1. Non-derivative financial assets (cont'd)

Lifetime expected credit losses are expected credit losses that result from all possible default events over the expected life of the financial asset. 12-month expected credit losses are the expected credit losses that result from possible default events within the 12 month period after the reporting date. The maximum period considered when assessing expected credit losses is the maximum contractual period over which the Group is exposed to credit risk.

Measurement of expected credit losses
Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive.

Expected credit losses are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets
At each reporting date, the Group assesses whether financial assets carried at amortized cost are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following events: significant financial difficulty of the borrower; a breach of contract such as a default or payments being past due; the restructuring of a payment due to the Group on terms that the Group would not consider otherwise; or it is probable that the borrower will enter bankruptcy or other financial reorganization

Presentation of provision for expected credit losses in the statement of financial position
Provisions for expected credit losses of financial assets measured at amortized cost are deducted from the gross carrying amount of the financial assets.

Write-off
The gross carrying amount of a financial asset is written off when the Group does not have reasonable expectations of recovering a financial asset at its entirety or a portion thereof. This is usually the case when the Group determines that the debtor does not have assets or sources of income that may generate sufficient cash flows for paying the amounts being written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Group's procedures for recovery of amounts due. Write-off constitutes a de-recognition event.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

2. Non-financial assets

Timing of impairment testing
The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill.

Determining cash-generating units
For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Measurement of recoverable amount
The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Allocation of goodwill to cash generating units
Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from the synergies of the combination.

Recognition of impairment loss
An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. As regards cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after including the balance of goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

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

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

3. Investments in associates

An investment in an associate is tested for impairment when objective evidence indicates there has been impairment.

If objective evidence indicates that the value of the investment may have been impaired, the Group estimates the recoverable amount of the investment, which is the greater of its value in use and its net selling price. In assessing value in use of an investment in an associate, the Group either estimates its share of the present value of estimated future cash flows that are expected to be generated by the associate, including cash flows from operations of the associate and the consideration from the final disposal of the investment, or estimates the present value of the estimated future cash flows that are expected to be derived from dividends that will be received and from the final disposal.

An impairment loss is recognized when the carrying amount of the investment, after applying the equity method, exceeds its recoverable amount, and it is recognized in profit or loss under other expenses. An impairment loss is not allocated to any asset.

An impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of the investment after the impairment loss was recognized, and only to the extent that the investment's carrying amount, after the reversal of the impairment loss, does not exceed the carrying amount of the investment that would have been determined by the equity method if no impairment loss had been recognized.

H. Employee benefits

1. Post-employment benefits

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

(a) Defined contribution plans

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

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

Note 3 - Significant Accounting Policies (cont'd)

H. Employee benefits (cont'd)

1. Post-employment benefits (cont'd)

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). The discount rate is the yield at the reporting date on high quality NIS-denominated corporate debentures, that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

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

Net interest costs on a net defined obligation are presented under salaries expenses.

The Group has executive insurance policies that were issued before 2004 according to which the profit in real terms accumulated on the severance pay component will be paid to the employees upon their retirement. In respect of such policies, plan assets include both the balance of the severance pay component and the balance of the profit in real terms (if any) on the severance pay deposits that accumulated until the reporting date, and are presented at fair value.

2. Short term benefits

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

A liability is recognized for the amount expected to be paid under short term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

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

Note 3 - Significant Accounting Policies (cont'd)

I. Revenue

The Group applies International Financial Reporting Standard 15 ("IFRS 15" or "the standard") which provides guidance on revenue recognition. According to IFRS 15, the Group recognizes revenue from goods with no alternative use over time.

The standard introduces a new five step model for recognizing revenue from contracts with customers:
(1) Identifying the contract with the customer.
(2) Identifying distinct performance obligations in the contract.
(3) Determining the transaction price.
(4) Allocating the transaction price to distinct performance obligations.
(5) Recognizing revenue when the performance obligations are satisfied.

Identifying the contract
The Group accounts for a contract with a customer only when the following conditions are met:
(a) The parties to the contract have approved the contract (in writing, orally or according to other customary business practices) and they are committed to satisfying the obligations attributable to them;
(b) The Group can identify the rights of each party in relation to the goods that will be transferred;
(c) The Group can identify the payment terms for the goods that will be transferred;
(d) The contract has a commercial substance (i.e. the risk, timing and amount of the entity's future cash flows are expected to change as a result of the contract); and
(e) It is probable that the consideration, to which the Group is entitled to in exchange for the goods transferred to the customer, will be collected.

Identifying performance obligations
In accordance with the standard, the Group should identify distinct performance obligations in contract with customers. The Group is characterized by transactions with a one performance obligation in each contract.

Determining the transaction price
The transaction price is the amount of the consideration to which the Group expects to be entitled in exchange for the goods promised to the customer.

Satisfaction of performance obligations
Revenue is recognized when the Group satisfies a performance obligation by transferring control over promised goods to the customer.
The Group's revenue is generated from the sale of goods manufactured according to customer specifications and based mainly on NCNR terms (non-cancelable and non-refundable). The Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Customer-specific goods cannot be sold to any other customer and therefore have no alternative use.

Note 3 - Significant Accounting Policies (cont'd)

I. Revenue (cont'd)

Contract asset

A contract asset is recognized when the Group may recognize revenue but still has a contractual obligation to perform, such as delivery, before it can receive consideration for goods sold to the customer.

Contract assets are classified as receivables when the rights in their respect become unconditional. In the following year, as the contractual obligation is completed, contract assets are classified as trade accounts receivable.

J. Development costs

Development costs are mainly incurred to plan and customize products for specific orders. These development costs, mainly labor costs, are expensed as incurred.

K. Leases

Determining whether an arrangement contains a lease

On the inception date of the lease, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

(a) The right to obtain substantially all the economic benefits from use of the identified asset; and

(b) The right to direct the identified asset's use.

Leased assets and lease liabilities

Contracts that award the Group control over the use of a leased asset for a period of time in exchange for consideration, are accounted for as leases. Upon initial recognition, the Group recognizes a liability at the present value of the balance of future lease payments (these payments do not include certain variable lease payments), and concurrently recognizes a right-of-use asset at the same amount of the lease liability, adjusted for any prepaid or accrued lease payments, plus initial direct costs incurred in respect of the lease.

Since the interest rate implicit in the Group's leases is not readily determinable, the incremental borrowing rate of the lessee is used. Subsequent to initial recognition, the right-of-use asset is accounted for using the cost model, and depreciated over the shorter of the lease term or useful life of the asset.

A right-of-use asset in respect of leased land is presented under "Fixed assets".

The lease term

The lease term is the non-cancellable period of the lease plus periods covered by an extension or termination option if it is reasonably certain that the lessee will or will not exercise the option, respectively.

Depreciation of right-of-use asset

After lease commencement, a right-of-use asset is measured on a cost basis less accumulated depreciation and accumulated impairment losses and is adjusted for re-measurements of the lease liability. Depreciation is calculated on a straight-line basis over the useful life or contractual lease period, whichever earlier, as follows:

- Leased lands — 70 years

Note 3 - Significant Accounting Policies (cont'd)

L. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and changes in the fair value of financial assets at fair value through profit or loss.
Dividend income is recognized on the date that the Group's right to receive payment is established, which, in the case of quoted securities, is the ex-dividend date.
Interest income is recognized as it accrues, using the effective interest method.

Finance expenses comprise changes in the fair value of financial assets at fair value through profit or loss (other than losses on trade receivables that are presented under general and administrative expenses).

In the statement of cash flows, interest paid, interest received and dividends received are presented as part of cash flows from operating activities. Dividends paid are presented as part of cash flows used for financing activities.

Foreign currency gains and losses are reported on a net basis as either finance income or finance expenses depending on whether foreign currency movements are in a net gain or net loss position.

M. Income tax

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, or are recognized directly in other comprehensive income to the extent they relate to items recognized directly in other comprehensive income.

Current taxes
Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

Offset of current tax assets and liabilities
Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

Uncertain tax positions
A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Deferred taxes
Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill and differences relating to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future and to the extent the Group controls the date of reversal.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Note 3 - Significant Accounting Policies (cont'd)

M. Income tax (cont'd)

Deferred taxes (cont'd)

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

Offset of deferred tax assets and liabilities
Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

N. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders of the Company and the weighted average number of ordinary shares outstanding, after adjustment for treasury shares, for the effects of all dilutive potential ordinary shares, which comprise convertible debentures, share options and share options granted to employees.
The Company has no dilutive instruments.

O. New standards, amendments to standards and interpretations not yet adopted

1. Amendment to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* and subsequent amendment: *Non-Current Liabilities with Covenants* (hereinafter - "the Amendment" and "the subsequent amendment")

The Amendment, together with the subsequent amendment to IAS 1 (see hereunder) replaces certain requirements for classifying liabilities as current or non-current.
According to the Amendment, a liability will be classified as non-current when the entity has the right to defer settlement for at least 12 months after the reporting period, and it "has substance" and is in existence at the end of the reporting period.
According to the subsequent amendment, as published in October 2022, covenants with which the entity must comply after the reporting date, do not affect classification of the liability as current or non-current. Additionally, the subsequent amendment adds disclosure requirements for liabilities subject to covenants within 12 months after the reporting date, such as disclosure regarding the nature of the covenants, the date they need to be complied with and facts and circumstances that indicate the entity may have difficulty complying with the covenants. Furthermore, the Amendment clarifies that the conversion option of a liability will affect its classification as current or non-current, other than when the conversion option is recognized as equity.

Note 3 - Significant Accounting Policies (cont'd)

O. New standards, amendments to standards and interpretations not yet adopted (cont'd)

1. Amendment to IAS 1, *Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current* and subsequent amendment: *Non-Current Liabilities with Covenants* (hereinafter - "the Amendment" and "the subsequent amendment") (cont'd)

The Amendment is effective for reporting periods beginning on or after January 1, 2024 and is applicable retrospectively, including an amendment to comparative data.

The Group is examining the effects of the Amendment on the financial statements with no plans for early adoption.

2. Amendment to IAS 1, *Presentation of Financial Statements: Disclosure of Accounting Policies (*hereinafter - "the Amendment")

According to the amendment companies must provide disclosure of their material accounting policies rather than their significant accounting policies. Pursuant to the amendment, accounting policy information is material if, when considered with other information disclosed in the financial statements, it can be reasonably be expected to influence decisions that the users of the financial statements make on the basis of those financial statements.
The amendment to IAS 1 also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment also clarifies that immaterial accounting policy information need not be disclosed.

The amendment is applicable for reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

The Group is examining the effects of the amendment on the financial statements with no plans for early adoption.

Note 4 - Cash and Cash Equivalents

	December 31 2022	**December 31 2021**
	$ thousands	**$ thousands**
Bank balances	**14,296**	22,146
Deposits	**4,707**	-
	19,003	22,146

The Group's exposure to currency risks concerning cash and cash equivalents is disclosed in Note 15 on financial instruments.

Note 5 - Deposits and Marketable Securities

	December 31 2022 $ thousands	December 31 2021 $ thousands
Current investments		
Short-term deposits (*)	**25,475**	15,483
Marketable securities:		
Stocks	**274**	393
Mutual funds	**485**	603
	759	996
	26,234	16,479
Non-current investments		
Long-term deposits (**)	**-**	5,020

(*) Include mainly, short-term deposits in dollars, bearing interest at an average annual rate of approximately 4.19% (December 31, 2021: 0.83%).

(**) As of December 31, 2021 - long term deposits in dollars bearing interest at an annual rate of 0.95%, final maturity in February 2023.

The Group's exposure to interest rate risk concerning deposits is disclosed in Note 15 on financial instruments.

Note 6 - Trade and Other Accounts Receivable

	December 31 2022 $ thousands	December 31 2021 $ thousands
Trade accounts receivable		
Trade receivables	**10,374**	9,925
Less provision for doubtful debts	**-**	(8)
	10,374	9,917
Other accounts receivable		
Contract assets	**1,293**	2,527
Government institutions	**47**	14
Related parties	**82**	128
Prepaid expenses	**213**	181
Other receivables	**620**	376
	2,255	3,226

The Group's exposure to credit and currency risks concerning trade and other accounts receivable is disclosed in Note 15 on financial instruments.

Note 7 - Inventory

	December 31 2022	December 31 2021
	$ thousands	$ thousands
Raw and packing material	**3,076**	2,760
Work-in-process	**785**	353
Finished products	**658**	659
	4,519	3,772

Note 8 - Investment in Equity Accounted Investee

In October 2018 the Company acquired 20% of the rights in a Hong-Kong holding company - PCT Industries Limited (hereinafter - “PCT”), holding a fully owned manufacturing subsidiary in Dongguan, China, engaging in manufacturing and assembly, which currently serves as one of the Company’s major manufacturing partners.

In accordance with the investment agreement, the Company was granted an option to increase its share of the rights in PCT by 15% (up to 35%) which will expire in August 2023 (hereinafter - "the option"). The fair value of the option is estimated at USD 100 thousand as at December 31, 2022 and 2021, which is presented under “Investment in Equity Accounted Investee”.

Note 9 - Other Investment

In September 2022, the Group acquired shares and options of an Israeli startup (less than 20% of the startup's share capital), in the field of wireless charging solutions, for a consideration of USD 900 thousand. The investment is measured at fair value.

Note 10 - Fixed Assets

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Land and Buildings	Total
			$ thousands		
December 31, 2022					
Cost					
Balance as of January 1, 2022	**4,244**	**638**	**2,051**	**12,109**	**19,042**
Acquisitions	**435**	**316**	**254**	**22**	**1,027**
Disposals	**-**	**(251)**	**(460)**	**-**	**(711)**
Balance as of December 31, 2022	**4,679**	**703**	**1,845**	**12,131**	**19,358**
Accumulated depreciation					
Balance as of January 1, 2022	**3,201**	**291**	**1,621**	**3,707**	**8,820**
Depreciation for the year	**279**	**86**	**190**	**324**	**879**
Disposals	**-**	**(193)**	**(460)**	**-**	**(653)**
Balance as of December 31, 2022	**3,480**	**184**	**1,351**	**4,031**	**9,046**
Carrying amounts as of December 31, 2022	**1,199**	**519**	**494**	**8,100**	**10,312**
Carrying amounts as of January 1, 2022	**1,043**	**347**	**430**	**8,402**	**10,222**

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Land and Buildings	Total
			$ thousands		
December 31, 2021					
Cost					
Balance as of January 1, 2021	3,993	490	1,974	12,109	18,566
Acquisitions	256	148	77	-	481
Disposals	(5)	-	-	-	(5)
Balance as of December 31, 2021	4,244	638	2,051	12,109	19,042
Accumulated depreciation					
Balance as of January 1, 2021	2,933	219	1,396	3,382	7,930
Depreciation for the year	269	72	225	325	891
Disposals	(1)	-	-	-	(1)
Balance as of December 31, 2021	3,201	291	1,621	3,707	8,820
Carrying amounts as of December 31, 2021	1,043	347	430	8,402	10,222
Carrying amounts as of January 1, 2021	1,060	271	578	8,727	10,636

Note 10 - Fixed Assets (cont'd)

A. Details on land rights used as fixed assets by the Group

The land on which the Company's premises in Israel are built, has a carrying amount of USD 1,204 thousand as at December 31, 2022 (December 31, 2021: USD 1,225 thousand) and is leased from the Israel Lands Administration under a capital lease ending on June 30, 2032. The Company has the right to extend the lease period by another 49 years under certain circumstances.

B. Acquisition of fixed assets on credit

As at December 31, 2022, the Company acquired fixed assets on credit in the amount of USD 49 thousand (December 31, 2021: USD 15 thousand). As of the date of signing these financial statements, this amount has been paid.

C. Advances paid on account of fixed assets

The fixed assets item as at December 31, 2022 includes advances in the amount of USD 44 thousand that were paid on account of fixed assets (December 31, 2021: USD 36 thousand).

D. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2022 the original cost of such assets is USD 3,816 thousand (December 31, 2021: USD 3,954 thousand).

Note 11 - Other Payables

	December 31 2022	December 31 2021
	$ thousands	$ thousands
Employees and related benefits	**860**	790
Other payables and accrued expenses	**1,243**	1,245
	2,103	2,035

The Group's exposure to currency and liquidity risks concerning other payables is disclosed in Note 15 on financial instruments.

Note 12 - Employee Benefits

Employee benefits include post-employment benefits and short-term benefits.

As for post-employment benefits, the Group has defined benefit plans for which it makes contributions to appropriate insurance policies. In addition the Group has a defined contribution plan in respect of those of its employees who are subject to section 14 of the Severance Pay Law-1963.

Note 12 - Employee Benefits (cont'd)

Composition of employee benefits:

	December 31 2022 $ thousands	December 31 2021 $ thousands
Presented under current liabilities:		
Short-term employee benefits	**557**	649
Presented under non-current liabilities:		
Net liability for defined benefit plan	**414**	731
Total employee benefits	**971**	1,380

A. Post-employment benefit plans - defined benefit plan

Risks affiliated with the Group’s liability for defined benefit obligations refer to deviations in salary increases, deviations in assets performances from the expectation, as well as change in interest rate environment.
For sensitivity analyses, reflecting the effect of changes in salary increase assumptions and interest rate, see 6 hereinafter.

	December 31 2022 $ thousands	December 31 2021 $ thousands
Present value of defined benefit obligation	**1,944**	2,478
Fair value of plan assets	**(1,530)**	(1,747)
Net recognized liability for defined benefit obligations	**414**	731

1. Movements in the present value of the defined benefit obligations

	2022 $ thousands	2021 $ thousands
Defined benefit obligations as at January 1	**2,478**	2,321
Benefits paid	**(67)**	(146)
Current service costs	**96**	97
Past service cost	**28**	5
Interest costs	**42**	51
Changes in respect of foreign exchange differences	**(307)**	83
Remeasurement of defined benefit plan	**(326)**	67
Defined benefit obligation as at December 31	**1,944**	2,478

Note 12 - Employee Benefits (cont'd)

A. Post-employment benefit plans - defined benefit plan (cont'd)

2. Movements in plan assets

	2022 $ thousands	2021 $ thousands
Fair value of plan assets as at January 1	**1,747**	1,632
Contributions by employer	**70**	81
Benefits paid	**(65)**	(125)
Past service cost	**-**	5
Interest income	**30**	45
Changes in respect of foreign exchange differences	**(205)**	55
Remeasurement of defined benefit plan	**(47)**	54
Fair value of plan assets as at December 31	**1,530**	1,747

3. Expenses recognized in profit or loss

	For the year ended December 31	
	2022 $ thousands	2021 $ thousands
Current service costs	**96**	97
Past service costs	**28**	-
Interest costs	**42**	51
Interest income	**(30)**	(45)
Net change in respect of foreign exchange differences	**(102)**	28
	34	131

4. Recognized in other comprehensive income (loss)

	For the year ended December 31	
	2022 $ thousands	2021 $ thousands
Defined benefit obligation:		
Actuarial gains (losses) from changes in financial assumptions	**363**	(105)
Actual return less interest income	**5**	(17)
Other actuarial gains (losses)	**(11)**	53
Changes in respect of foreign exchange differences	**(31)**	2
	326	(67)
Plan assets:		
Actual return less interest income	**(18)**	68
Other actuarial losses	**(31)**	(16)
Changes in respect of foreign exchange differences	**2**	2
	(47)	54
Net actuarial gains (losses) for the year	**279**	(13)

Note 12 - Employee Benefits (cont'd)

A. Post-employment benefit plans - defined benefit plan (cont'd)

5. Actual return

	For the year ended December 31	
	2022	2021
	%	%
Actual return rate on plan assets	**0.79**	6.59

6. Actuarial assumptions and sensitivity analyses

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2022	2021
	%	%
Discount rate as at December 31	**2.69**	0.45
Future salary growth	**3**	3
Leave rates for employees:		
Less than 10 years of service	**5**	5
10 years of service or more	**2**	2

Assumptions regarding future mortality are based on published statistics and mortality tables.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	1% Increase		1% Decrease	
	December 31		December 31	
	2022	2021	2022	2021
	$ thousands	$ thousands	$ thousands	$ thousands
Future salary growth	**124**	226	**(73)**	(178)
Discount rate	**(72)**	(173)	**116**	218

7. Effect of the plan on the Group’s future cash flows

The Group expects to pay approximately USD 74 thousand in contributions to the funded defined benefit plan in 2023.

The Group estimates the plan’s duration (based on weighted average) to be 8.74 years at the end of the reporting period (2021: 9.90 years).

B. Post-employment benefit plans - defined contribution plan

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Amount recognized as expense in respect of defined contribution plan	**495**	476

Note 12 - Employee Benefits (cont'd)

C. Short-term employee benefits

	December 31 2022	December 31 2021
	$ thousands	$ thousands
Provision for vacation and recreation	**557**	636
Post-employment benefits	**-**	13
	557	649

Note 13 - Investments in Subsidiaries

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2022:

A. Payton America Inc. (hereinafter "Payton America"):
Payton America, a fully owned U.S. subsidiary, located in Florida, manufactures and sells Planar transformers and inductors.

B. Himag Planar Magnetics Ltd. (hereinafter "Himag Planar"):
Himag Planar, a fully owned UK subsidiary, incorporated for the purpose of the business activity acquisition of Himag Solutions Ltd. The investment in Himag Planar constitutes capital notes in USD which do not bear any interest.

Note 14 - Commitments

A. According to a Management Services Agreement signed between the Company and Wichita Ltd., a management company under the full control of Mr. David Yativ (approved by the Company's General meeting dated September 30, 2020), David Yativ will continue to provide management services as the Active Chairman of the Company for a period of 3 years, as of November 1, 2020. For providing these management services, Wichita Ltd. will be entitled to a monthly management fee of USD 51 thousand (linked to the Israeli consumer price index according to the base index known on August 15, 2020) which shall be raised by 3% in April each year, and an annual bonus calculated as 3.4% of the Company's annual profit before taxes on income and before any other profit based bonus.

B. According to a Management Services Agreement signed between the Company and Yaarh - Looking To The Future Ltd., a management company under the full control of Mr. Doron Yativ (approved by the Company's General meeting dated September 30, 2020), Doron Yativ will continue to provide management services as the Company's C.E.O, for a period of 3 years, as of November 1, 2020. For providing these management services, Yaarh - Looking To The Future Ltd. will be entitled to a monthly management fee of USD 26 thousand (linked to the Israeli consumer price index according to the base index known on August 15, 2020) which shall be raised by 3% in April each year, and an annual bonus calculated as 2% of the Company's annual profit before taxes on income and before any other profit based bonus.

Note 15 - Financial Instruments

A. Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency and interest risks)

This note presents quantitative and qualitative information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.
The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

B. Credit risk

The Group's revenues are derived from sales to customers in Israel, Asia, Europe, America and other countries around the world. The Company's Management regularly monitors the customers' balances and includes specific provisions for doubtful debts in the financial statements that adequately reflect, in the opinion of management, the loss inherent in debts the collection of which is doubtful.

The Group has credit risk insurance for most of its Israeli and other customers, whose yearly activity exceeds USD 5 thousand and USD 10 thousand, respectively.

The Group's cash surpluses are invested in banks. The Group has a surplus cash investment policy for the purpose of reducing risk or maintaining liquidity. This policy is reviewed and updated from time to time according to market changes.

1. Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31	
	2022	**2021**
	Carrying amount	
	$ thousands	**$ thousands**
Cash and cash equivalents	**19,003**	22,146
Deposits	**25,475**	20,503
Trade accounts receivable	**10,374**	9,917
Other accounts receivable	**1,378**	2,655
	56,230	55,221

Note 15 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk (cont'd)

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by geographic region was:

	December 31	
	2022	2021
	Carrying amount	
	$ thousands	$ thousands
Israel	**14,288**	9,967
U.S.A.	**3,895**	11,559
U.K.	**814**	610
Asia	**6**	10
	19,003	22,146

The maximum exposure to credit risk for deposits at the reporting date by geographic region was:

	December 31	
	2022	2021
	Carrying amount	
	$ thousands	$ thousands
Israel	**25,475**	20,503

The maximum exposure to credit risk for trade accounts receivable at the reporting date by geographic region was:

	December 31	
	2022	2021
	Carrying amount	
	$ thousands	$ thousands
Israel	**441**	328
Asia	**6,904**	5,092
Europe	**1,479**	1,751
U.S.A.	**1,550**	2,736
Canada	**-**	10
	10,374	9,917

Note 15 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk (cont'd)

Trade accounts receivable in respect of principal customers of the Group at the reporting date:

	December 31	
	2022	2021
	Carrying amount	
	$ thousands	$ thousands
Customer A	**2,709**	3,608
Customer B	**2,907**	1,367

2. Aging of debts and impairment losses

The aging of trade accounts receivable at the reporting date was:

	December 31			
	2022		2021	
	Gross	Impairment	Gross	Impairment
	$ thousands	$ thousands	$ thousands	$ thousands
Not past due	**6,915**	**-**	8,561	-
Past due 0-30 days	**3,050**	**-**	1,177	-
Past due 31-120 days	**382**	**-**	173	-
Past due 121 days to one year	**27**	**-**	6	-
Past due more than one year	**-**	**-**	8	(8)
	10,374	**-**	9,925	(8)

C. Liquidity risk

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities based on the actual rates at the reporting date, including estimated interest payments:

	December 31, 2022		
	Carrying amount	Contractual cash flows	6 months or less
		$ thousands	
Non-derivative financial liabilities:			
Trade payables	**1,419**	**1,419**	**1,419**
Other payables	**1,243**	**1,243**	**1,243**
	2,662	**2,662**	**2,662**

Note 15 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

	December 31, 2021		
	Carrying amount	**Contractual cash flows**	**6 months or less**
		$ thousands	
Non-derivative financial liabilities:			
Trade payables	4,088	4,088	4,088
Other payables	1,245	1,245	1,245
	5,333	5,333	5,333

D. Market risk

The Group's normal course of business is being managed in U.S. dollar, thus, most of the market risks are hedged.
The Group uses, from time to time, derivatives as a tool for hedging, in order to neutralize fluctuations in profit or loss.

1. Foreign currency risk

<u>Currency risk</u>

Since most of the Group's sales are in U.S. dollar, the Group's gross profit is exposed to the changes in exchange rates of the U.S. dollar in relation to the NIS and GBP, with regards to local labor costs and other operating costs, and in relation to the Chinese currency, with regards to costs of raw materials. The Company uses derivatives, from time to time, as a tool for economic hedging, especially in order to hedge labor costs and other costs paid in NIS.

Note 15 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Foreign currency risk (cont'd)

(a) The exposure to foreign currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	December 31, 2022					
	Dollar	**NIS**	**Euro**	**GBP**	**Other**	**Total**
	$ thousands					
Financial assets and financial liabilities:						
Current assets:						
Cash and cash equivalents	**14,673**	**3,814**	**346**	**163**	**7**	**19,003**
Short-term deposits	**24,474**	**1,001**	**-**	**-**	**-**	**25,475**
Trade and other receivables	**10,944**	**392**	**201**	**215**	**-**	**11,752**
Current liabilities:						
Trade payables	**(940)**	**(424)**	**(14)**	**(41)**	**-**	**(1,419)**
Other payables	**(983)**	**(206)**	**(47)**	**-**	**(7)**	**(1,243)**
	48,168	**4,577**	**486**	**337**	**-**	**53,568**

	December 31, 2021					
	Dollar	**NIS**	**Euro**	**GBP**	**Other**	**Total**
	$ thousands					
Financial assets and financial liabilities:						
Current assets:						
Cash and cash equivalents	20,755	851	392	141	7	22,146
Short-term deposits	15,483	-	-	-	-	15,483
Trade and other receivables	11,866	346	106	254	-	12,572
Non-current assets:						
Long-term deposits	5,020	-	-	-	-	5,020
Current liabilities:						
Trade payables	(3,527)	(432)	(14)	(115)	-	(4,088)
Other payables	(1,042)	(187)	(11)	-	(5)	(1,245)
	48,555	578	473	280	2	49,888

Note 15 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Foreign currency risk (cont'd)

(a) The exposure to foreign currency risk (cont'd)

Information regarding significant exchange rates:

	Year ended December 31		As at December 31	
	2022	2021	2022	2021
	Rate of change		Reporting date spot rate	
	%	%	NIS	NIS
1 US dollar	**13.15**	(3.27)	**3.519**	3.110

	Year ended December 31		As at December 31	
	2022	2021	2022	2021
	Rate of change		Reporting date spot rate	
	%	%	Euro	Euro
1 US dollar	**6.23**	8.34	**0.938**	0.883

	Year ended December 31		As at December 31	
	2022	2021	2022	2021
	Rate of change		Reporting date spot rate	
	%	%	GBP	GBP
1 US dollar	**12.16**	1.09	**0.830**	0.740

(b) Sensitivity analysis

A weakening of the USD against the following currencies as at December 31 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2021.

	Profit or loss	
	December 31 2022	December 31 2021
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	**229**	29
5% in the Euro	**24**	24
5% in the GBP	**17**	14

A strengthening of the USD against the above currencies as at December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

Note 15 - Financial Instruments (cont'd)

D. Market risk (cont'd)

2. Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to deposits (mainly in U.S. dollars) which bear interest rates given by or affected by banks. The average interest rate on deposits at the reporting date is approximately 4%.

(a) Profile

At the reporting date the interest-bearing financial instruments of the Group were:

	December 31	
	2022	2021
	Carrying amount	
	$ thousands	$ thousands
Unlinked fixed rate instruments		
Financial assets	**30,182**	20,503

(b) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

E. Fair value

The carrying amounts of financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, trade payables and other payables are the same or proximate to their fair value.
As at December 31, 2022 and 2021 the fair value of the option to increase the Company's share of the rights in equity accounted investee, is presented in the Statement of Financial Position based on a valuation (Level 3).

Note 16 - Share Capital and Reserves

A. Share capital - Composition

	Number of shares	
	Authorized	Issued and paid
	December 31, 2022 and 2021	
Ordinary shares of NIS 1 each	**20,000,000**	**17,670,775**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to Company's residual assets.

Note 16 - Share Capital and Reserves (cont'd)

B. Dividends

The following dividends were paid by the Company:

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
USD 0.454 per ordinary share	**8,023**	-
USD 0.42 per ordinary share	**-**	7,422

Note 17 - Statement of Profit or Loss Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Export	**59,029**	43,077
Israel	**1,241**	903
	60,270	43,980

2. Principal customers

The revenues include sales to principal customers (which make up in excess of 10% of the sales of the Group):

	For the year ended December 31	
	2022	2021
	%	%
Customer A	**29**	21
Customer B	**17**	17

Note 17 - Statement of Profit or Loss Data (cont'd)

B. Cost of sales

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Materials consumed*	**28,646**	19,201
Salaries and related benefits	**5,560**	5,638
Depreciation	**541**	530
Other manufacturing expenses	**1,462**	1,313
Change in inventory of finished products and work in process	**(431)**	(75)
	35,778	26,607

* Includes inventory write-off of USD 55 thousand and USD 218 thousand for the years ended December 31, 2022 and 2021, respectively.

C. Selling and marketing expenses

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Salaries and related benefits**	**973**	1,022
Sales commissions	**689**	609
Advertising and marketing	**52**	45
Exhibits and travel abroad	**141**	51
Other	**77**	64
	1,932	1,791

** Includes expenses related to related parties in the amount of USD 435 thousand and USD 432 thousand for the years ended December 31, 2022 and 2021, respectively (see Note 17G).

D. General and administrative expenses

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Salaries and related benefits	**1,255**	1,318
Maintenance and communications	**271**	245
Depreciation	**338**	361
Professional services	**294**	257
Management fees and related benefits to related parties	**1,104**	1,040
Other	**602**	513
	3,864	3,734

Note 17 - Statement of Profit or Loss Data (cont'd)

E. Other income, net

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Capital gain on sale of fixed assets	**57**	1

F. Finance income and expenses

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Finance income		
Interest income from bank deposits	**442**	176
Interest income on cash	**5**	1
Income from marketable securities	**-**	7
Other	**3**	9
	450	193
Finance expenses		
Bank charges and others	**35**	35
Loss from marketable securities	**76**	-
Interest for delayed tax payments	**17**	40
Exchange rate differences, net	**122**	80
Other	**-**	13
	250	168

G. Transactions and balances with related parties

Compensation and benefits to key management personnel and interested parties (including directors) that are employed by the Group:

	Year ended December 31				December 31	
	2022		2021		2022	2021
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Short-term employee benefits		**500**		607	**109**	146
Post-employment benefits		**(48)**		27	**33**	128
	5	**452**	5	634	**142**	274

Note 17 - Statement of Profit or Loss Data (cont'd)

G. Transactions and balances with related parties (cont'd)

Compensation to key management personnel (including directors) that are not employed by the Group:

	Year ended December 31				December 31	
	2022		2021		2022	2021
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Total compensation to directors not employed by the Group	**3**	**39**	3	42	**10**	11
Total compensation to key management personnel not employed by the Group (*)	**2**	**1,571**	2	1,491	**706**	621
Accounts receivable- The Parent Company	**-**	**-**	-	-	**82**	128

(*) Management fees and related benefits to Wichita Ltd. (see Note 14A) and to Yaarh-Looking To The Future Ltd. (see Note 14B) include an amount of USD 184 thousand (year ended December 31, 2021: USD 183 thousand) and an amount of USD 251 thousand (year ended December 31, 2021: USD 249 thousand), respectively, recorded as selling and marketing expenses.

Inter-company transactions between the Company and its two fully owned subsidiaries (Payton America Inc. and Himag Planar Magnetics Ltd.) include, inter alia, the following: engineering support, purchasing and subcontracting, marketing, administrative and management services. All the inter-company transactions are being eliminated within these consolidated financial statements.

Note 18 - Taxes on Income

A. Details regarding the tax environment of the Company

1. Corporate tax rate

The tax rate relevant in the years 2021 - 2022 is 23%.

Current taxes for the reported periods and deferred tax balances as at December 31, 2022 and 2021 are calculated according to the tax rate presented above. See also Note 18A(4) hereunder.

Note 18 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Company (cont'd)

2. The Dollar regulations

The Company, being a "foreign investment company", elected to be taxed as from the year 2009, based upon its results in dollars and according to applicable income tax regulations (hereinafter - "the Dollar regulations").

3. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company currently qualifies as an "Industrial Company" as defined in the Law for the Encouragement of Industry (Taxes) - 1969 and accordingly it is entitled to benefits, of which the most significant one is higher rates of depreciation than those prescribed in the Israeli tax ordinance.

4. Tax benefits under the Law for the Encouragement of Capital Investments - 1959 ("the Investment Law")

Amendment to the Law for the Encouragement of Capital Investments - 1959
The Company is subject to the Law for the Encouragement of Capital Investments - 1959 which was amended last in 2010 (hereinafter - "the Amendment to the Law"). The Amendment to the Law provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment to the Law.
The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, a preferred enterprise track was introduced, which mainly provide a uniform and reduced tax rate for all the company's income entitled to benefits.
On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) - 2013, which raised the tax rates on preferred income as from the 2014 tax year as follows: 9% for Development Area A and 16% for the rest of the country.

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 20% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties.

The Company complies with the conditions provided in the amendment to the Law for the Encouragement of Capital Investments for inclusion in the scope of the tax benefits track.

On November 15, 2021 the Economic Efficiency Law (Legislative Amendments for the 2021 and 2022 Budget Years) - 2021 (hereinafter: "the Economic Efficiency Law") was published as well as a Temporary Order to the Law for the Encouragement of Capital Investments - 1959 (hereinafter: "the temporary order"), which offers a reduced tax rate arrangement to companies that received an exemption from corporate tax under the aforesaid law. The temporary order provided that companies that choose to apply the temporary order, which is effective until November 14, 2022, will be entitled to a reduced tax rate on the "release" of exempt profits (hereinafter: "the beneficiary corporate tax rate"). The release of exempt profits makes it possible to distribute them at a reduced rate of corporate tax at the company level based on the rate of the profits being distributed pursuant to the conditions set forth in the Amendment.

Note 18 - Taxes on Income (cont'd)

A. Details regarding the tax environment of the Company (cont'd)

4. Tax benefits under the Law for the Encouragement of Capital Investments - 1959 ("the Investment Law") (cont'd)

The reduced corporate tax rate will be determined according to the rate of exempt profits the company chooses to release from its entire exempt profits, and will be between 40% and 70% of the corporate tax rate that would have applied to the revenue in the year it was produced if it had not been exempt, but in any event no less than 6%. Furthermore, a company that chooses to release its exempt profits and pay a beneficiary corporate tax rate will be required to invest in its enterprise, within a period of 5 years beginning from the tax year it elected, an amount calculated according to a formula provided in the temporary order (30% of the exempt income multiplied by the corporate tax rate and multiplied by the release rate). The investment will be made in productive assets (with the exclusion of buildings), research and development in Israel and salaries to new employees of the enterprise. Failure to comply with this condition will require the company to pay additional corporate tax.

In addition, according to the Economic Efficiency Law an amendment was made to Section 74 of the Law for the Encouragement of Capital Investments - 1959 with respect to identifying the sources of dividend distributions as from August 15, 2021.

The Company applied the temporary order in 2022. In accordance with the Company's decision and pursuant to the temporary order, the dividend payment made in June 2022 was subject to a beneficiary corporate tax rate, at the amount of USD 919 thousands, which was paid in April 2022.

B. Details regarding the tax environment of the subsidiary in U.S.A.

Payton America is subject to the tax rate of its country of domicile.
The primary tax rates applicable to the subsidiary are 21% Federal Tax and 5.5% State Tax.

C. Details regarding the tax environment of the subsidiary in UK

Himag Planar is subject to the tax rate of its country of domicile.
The primary tax rate applicable to the subsidiary is 19%.

D. Final tax assessments

The Company has final tax assessments up to and including the 2016 tax year.

With few exceptions the U.S. subsidiary is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2019.

Note 18 - Taxes on Income (cont'd)

E. Composition of income tax expense

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Current year taxes	**3,033**	1,731
Deferred tax expense - creation and reversal of temporary differences, net	**20**	90
Adjustments for prior years	**919**	-
	3,972	1,821

F. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and their actual tax expense, is as follows:

	For the year ended December 31	
	2022	2021
	$ thousands	$ thousands
Tax rate	**23%**	23%
Profit before taxes on income	**17,889**	10,341
Income tax using the domestic corporations tax rate	**4,114**	2,378
Additional tax (tax saving) in respect of:		
Neutralization of tax calculated in respect of the Company's share in losses (profits) of equity accounted investee	**(61)**	12
Tax saving in respect of foreign subsidiaries	**(36)**	(46)
Non-deductible expenses and tax exempt income, net	**19**	41
Tax benefits due to Preferred Enterprise status	**(931)**	(551)
Taxes in respect of previous years	**919**	-
Others	**(52)**	(13)
	3,972	1,821

Note 18 - Taxes on Income (cont'd)

G. Deferred tax assets and liabilities

(1) Recognized deferred tax assets and liabilities

Deferred taxes in respect of companies in Israel are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above. Deferred taxes in respect of foreign subsidiary are calculated according to the relevant tax rates.

Deferred tax assets and liabilities are attributable to the following items:

	Employee benefits	Fixed assets	Investment in equity accounted investee	Other	Total
			$ thousands		
Balance as at January 1, 2021	229	(1,081)	(6)	(194)	(1,052)
Changes recognized in profit or loss	26	(74)	-	(42)	(90)
Changes recognized in other comprehensive income	1	-	-	-	1
Balance as at December 31, 2021	256	(1,155)	(6)	(236)	(1,141)
Changes recognized in profit or loss	**(25)**	**(28)**	**(50)**	**83**	**(20)**
Changes recognized in other comprehensive loss	**(53)**	**-**	**-**	**-**	**(53)**
Balance as at December 31, 2022	**178**	**(1,183)**	**(56)**	**(153)**	**(1,214)**

	Employee benefits	Fixed assets	Investment in equity accounted investee	Other	Total
			$ thousands		
Deferred tax assets	**178**	**-**	**-**	**-**	**178**
Offset of balances					**(178)**
Deferred tax asset in statement of financial position as at December 31, 2022					**-**
Deferred tax liability	**-**	**(1,183)**	**(56)**	**(153)**	**(1,392)**
Offset of balances					**178**
Deferred tax liability in statement of financial position as at December 31, 2022					**(1,214)**

Note 18 - Taxes on Income (cont'd)

G. Deferred tax assets and liabilities (cont'd)

(1) Recognized deferred tax assets and liabilities (cont'd)

	Employee benefits	Fixed assets	Investment in equity accounted investee	Other	Total
			$ thousands		
Deferred tax assets	256	-	-	-	256
Offset of balances					(256)
Deferred tax asset in statement of financial position as at December 31, 2021					-
Deferred tax liability	-	(1,155)	(6)	(236)	(1,397)
Offset of balances					256
Deferred tax liability in statement of financial position as at December 31, 2021					(1,141)

(2) Unrecognized deferred tax liabilities

As at December 31, 2022 a deferred tax liability in the amount of USD 696 thousand (2021: USD 636 thousand) for temporary differences in the amount of USD 3,027 thousand (2021: USD 2,765 thousand) related to an investment in a subsidiary was not recognized because the decision as to whether to incur the liability rests with the Group and it is satisfied that it will not be incurred in the foreseeable future.

(3) Unrecognized deferred tax assets

As at December 31, 2022 deferred tax assets have not been recognized mainly in respect of tax losses in the amount of USD 203 thousand and capital tax losses in the amount of USD 585 thousand (year ended December 31, 2021: USD 365 thousand and USD 658 thousand, respectively) since currently it is not probable that future taxable profit will be available, against which the Group can utilize the benefits.

Note 19 - Earnings per Share

Basic and diluted earnings per share

	For the year ended December 31	
	2022	**2021**
Profit for the year ($ thousands)	**13,917**	8,520
Issued ordinary shares (in thousands of shares)	**17,671**	17,671
Basic and diluted earnings per ordinary share (in US$)	**0.79**	0.48

Note 20 - Entity Wide Disclosures

A. The Group has one operating segment, the transformer segment. The Group's chief operating decision maker (hereinafter: "CODM") makes decisions and allocates resources with respect to all the transformers as a whole.

CODM observes the operating data up to the profit for the year, in consistent of the consolidated financial reports presented in accordance with IFRS.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and segment non-current assets are based on the geographical location of these assets.

	For the year ended December 31, 2022				
	Israel	**Europe**	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Revenues	**3,392**	**10,146**	**9,914**	**36,818**	**60,270**
Non-current assets	**9,952**	**690**	**592**	**1,427**	**12,661**

	For the year ended December 31, 2021				
	Israel	**Europe**	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Revenues	1,259	10,219	11,376	21,126	43,980
Non-current assets	8,846	775	623	974	11,218

B. Information about sales to principal customers - see Note 17A(2).

Note 21 - Subsequent Events

On March 28, 2023 the Company's Board of Directors decided to pay the shareholders a dividend for the financial year 2022 at the amount of USD 8,482 thousand (USD 0.48 per share, to be paid during June 2023).