Payton Planar Magnetics Ltd.

Annual Report 2021

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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, 2021

***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.*

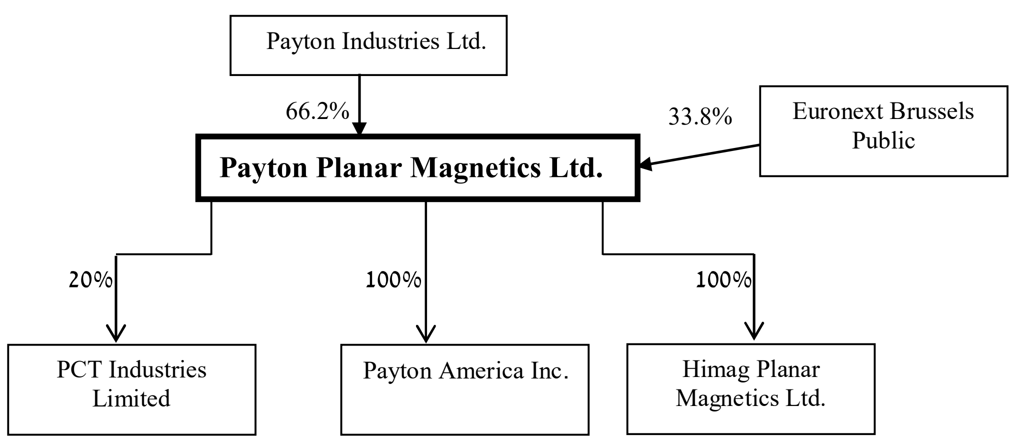
Reference in this report to forward looking statement shall be by stating that such information is given by way of estimation, evaluation, assessment, intentions, expectations, beliefs and similar terms, but it is possible that such information shall be given under other phrases.

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, 2021 form an integral part thereof.

B. The Group's main fields of activity and changes that occurred in the period from January to December 2021

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 effect** - in the year 2021, similar to year 2020, it seems that, the Group's flexibility and global spread, resulted in successfully handling this crisis. The manufacturing lines in Israel operated continuously while abiding all required distance regulations.

During year 2021, also, the other Group's members: the subsidiaries in England and United States continued their business operations in the same manner while keeping all needed measures and abiding with their local regulations.
Payton's worldwide planning and manufacturing facilities and geographically spread of the Group's production sites in China, the Philippines, Israel, England and the United States minimized the effect of the COVID-19 epidemic and has proven itself effective enabling the delivery of most orders on time.
In spite of the recent outbreak of the fifth covid-19 wave, in Israel and in other places over the world, most of the companies got used to conduct their economic and business activities side by side the COVID-19 epidemic.
As at the date of signing these financial statements, all production sites are fully operational in a "Corona routine".

- **Global business environment changes -** During year 2021 the additional global changes noted last year (2020) continued. Among these global changes are included: a significant global shortage and price increase of raw materials, a significant increase of materials lead-time, increase in shipping and transportation costs and shortage in such means, changes in customers' demands and postponing of delivery dates, lack of manpower and increase in labor costs and recently also energy shortage in China that might result in production capacity shortage. Management believes these trends are not going to end in the near future and will continue during year 2022 too. 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$*** against the local NIS, the Euro and the Pound, which mainly increases local labor costs and other operating costs in Israel and the United Kingdom. During year 2021 the significant US$ devaluation become a more significant factor.

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 24, 2021 - the Company's Board of Directors decided to pay the shareholders a dividend for the financial years 2019 and 2020, at the amount of USD 7,422 thousand (USD 0.42 per share). The dividend was paid in full on June 2021.

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, to be paid on June 2022).

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 2021, the Group kept operating its activities in: North America, Europe, Japan, China, S. Korea, India and UK.

Sales for the year ended December 31, 2021 amounted to USD 43,980 thousand about the same volume of USD 43,874 thousand for the year ended December 31, 2020.

Revenues for the year ended 2021 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
	2021	**2020**
Quanta Computer Inc.[1]	21%	31%
Customer B[2]	17%	12%

[1] Customer related to the Telecom/Datacenter industry.
[2] Customer related to the Automotive industry.

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

In 2021 the Group plans to continue investing efforts to expand 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 in order to keep expanding its core business.

Regarding the COVID-19 crisis effect and other global business environment changes (such as: global shortage and price increase of raw materials, increase of materials lead-time, increase in shipping and transportation costs, , lack of manpower etc.) - see paragraph B above and Note 1B to the Consolidated Financial Statements as at December 31, 2021.

Global currencies fluctuations and the devaluation of the US$ against the local NIS, the Euro and the Pound also affect the Group's performances. Both, in Israel and in the UK, there are currency fluctuations in the exchange rates of the main currency (USD) vis-à-vis the NIS and the GBP.

Company's Management is closely monitoring all above-mentioned market fluctuations and will continue to track their developments and effects. In addition, 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

Normally the Group participates in leading electronic exhibitions. During 2021, due to COVID-19 crisis, there were no exhibitions the Group participated in.

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.

Regarding the COVID-19 crisis effect and other global business environment changes - see paragraph B above and Note 1B to the Consolidated Financial Statements as at December 31, 2021.

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, 2021 this backlog amounted to USD 31,525 thousand, and as at March 13, 2022 to USD 44,032 thousand (December 31, 2020 - USD 18,921 thousand). The backlog is composed of the Company and its two fully owned subsidiaries firm orders.

	Order Backlog US$ in thousands	
	December 31, 2021	March 13, 2022
Delivery due date within first quarter of 2022	10,699	2,238
Delivery due date within second quarter of 2022	12,429	12,732
Delivery due date within third quarter of 2022	4,325	10,856
Delivery due date within fourth quarter of 2022	3,577	10,246
Delivery due date is after 1.1.2023	495	7,960
Total	31,525	44,032

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

J. Framework agreements that do not constitute binding orders

At the end of 2018 and at the beginning of 2019, the Company entered into framework agreements with one of its principle costumers (Customer B, as at 2021 yearly Financial Statements) for the supply of magnetic components to three (3) different projects in the electric/hybrid vehicle industry (HEV). The nature of the activity in the automotive industry is characterized by projects with a productive lifespan of about 5 to 7 years.
As of December 31, 2021, and as at the date of signing these financial statements, the Group estimates that only one of those three projects will proceed to an extent that is not material to the Group's business activity.

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

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 2021, the Group employed 179 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 the coming year (2022) Payton plans to continue improving efficiency as well as increasing production capabilities and production automation, all this, as part of the Group's aim to manufacture and deliver its order backlog and to conduct its business operations in a controlled manner of "Corona routine", enlarging its market share and maximize business challenges to the greatest possible extent.

Regarding the COVID-19 crisis effect and other global business environment changes, mentioned above (see paragraph B above and Note 1B to the Consolidated Financial Statements as at December 31, 2021), the Group at this stage, cannot assess their full impact. Company believes its business planning, worldwide manufacturing facilities and production sites will enable it to successfully cope with the mentioned situations.

The Group will 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 COVID-19 crisis and other global business environment changes has many implications including the following: - Shortage and increase of raw material costs. - Long lead-time. - Shortage of manpower. - Difficulties with production activities at our subcontractors in China, in the Philippines and in our local production in Israel. - Cancellation/rejection of projects by customers. * *See paragraph B above and Note 1B to the Consolidated Financial Statements as at December 31, 2021*	▪ Chinese currency evaluation against the USD increases cost of goods sold. In addition, the increase of the minimum wages in China may increase the labor costs. ▪ Evaluation/Devaluation of the local currencies, NIS and GBP reflects an increase/decrease in labor costs and other operating costs. ▪ Changes in regulation and changes in international tariffs. ▪ Increase in shipping and transportation costs and shortage in such means including extension of delivery time.	▪ Currency exposure during credit term period with regards to invoices issued in local currency. ▪ Currency exposure against the Group's functional currency (USD), in relation to sales priced in other currencies, mainly, GBP and Euro.
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 since there is no commitments from the customer end (the Frame agreements are non-binding). 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, 2021

Cash and cash equivalents, Short-term Deposits and marketable securities - these items amounted to a total of USD 38,625 thousand as at December 31, 2021 compared to USD 44,379 thousand as at December 31, 2020. The decrease in these items resulted due to the dividend payment made on June 2021, and the classification of USD 5,020 thousand as long-term deposit. However, the profit for the period offset the impact of these two factors.
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 3,226 thousand as at December 31, 2021 compared with USD 2,417 thousand as at December 31, 2020. The changes in this item are due to advance payments made to suppliers and mainly due to IFRS 15 implementation according to which the Company recognized revenues over time (instead of upon delivery). Revenues recorded prior to delivery are recorded against "contract assets", which are presented among "other accounts receivable". As at December 31, 2021 such contract assets amounted to approximately USD 2.5 million compared to USD 1.9 million as at December 31, 2020.

Long-term deposits - amounted to USD 5,020 thousand as at December 31, 2021. There were no Long-term deposits as at December 31, 2020.

Trade payables - amounted to USD 4,088 thousand as at December 31, 2021 compared with USD 5,053 thousand as at December 31, 2020. The changes in this item are influenced mainly from purchases made near the report date as well as from advance payment and shorter payment terms in favor of subcontractors.

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 2021, about 1%), which changes from time to time.

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 (92%) in the reported periods were in USD or were linked to the USD. Approximately 3% of the Group’s sales in 2021 were in Euro, 1% were in NIS, and about 4% were in GBP.

During 2021, approximately 94% of the costs of raw material and finished goods purchased by the Group were in USD or were linked to the USD.
During 2021, approximately 80% of the Group’s salaries were in New Israeli Shekel ("NIS") and about 8% 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 2021 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.

Regarding the COVID-19 crisis and other global business environment changes effect - see paragraph B above and Note 1B to the Consolidated Financial Statements as at December 31, 2021.

C. Operating results

Summary of Consolidated Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Total 2021	Total 2020	Quarter 10-12/21	Quarter 7-9/21	Quarter 4-6/21	Quarter 1-3/21
Revenues	43,980	43,874	14,795	9,883	9,217	10,085
Cost of sales	(26,607)	(25,734)	(8,934)	(6,210)	(5,302)	(6,161)
Gross profit	*17,373*	*18,140*	*5,861*	*3,673*	*3,915*	*3,924*
Development costs	(1,481)	(1,365)	(349)	(361)	(425)	(346)
Selling & marketing expenses	(1,791)	(1,759)	(508)	(411)	(419)	(453)
General & administrative expenses	(3,734)	(3,385)	(1,025)	(911)	(943)	(855)
Other income, net	1	20	-	-	1	-
Operating profit	*10,368*	*11,651*	*3,979*	*1,990*	*2,129*	*2,270*
Finance income (expenses), net	25	455	(16)	(38)	42	37
Share of profits (losses) of equity accounted investee	(52)	(26)	98	(27)	(66)	(57)
Profit before taxes on income	*10,341*	*12,080*	*4,061*	*1,925*	*2,105*	*2,250*
Taxes on income	(1,821)	(2,175)	(751)	(343)	(388)	(339)
Net profit for the period	*8,520*	*9,905*	*3,310*	*1,582*	*1,717*	*1,911*
Other comprehensive income (loss) items that will not be transferred to profit &loss						
Remeasurement of defined benefit plan	(12)	56	(12)	-	-	-
Share of other comprehensive income (loss) of equity accounted investee	7	20	6	2	1	(2)
Total other comprehensive income (loss)	(5)	76	(6)	2	1	(2)
Total comprehensive income for the year/period	*8,515*	*9,981*	*3,304*	*1,584*	*1,718*	*1,909*

General Note: The Group is exposed to abrasion of the USD in relation to the NIS, Euro and the GBP. Most of the Group's salaries and other operating costs are fixed in local currencies. Devaluation of the USD in relation to local currencies drives to an increase in labor costs and other operating costs, thus, affects the operating results of the Group.

***Sales revenues* -** The Group's sales revenues for year 2021 were USD 43,980 thousand similar to the amount of USD 43,874 thousand in year 2020. The Group succeeded to maintain its sales volume in spite of the challenges of the COVID-19 crisis and other global business environment worldwide effects thanks to its diversity of projects and its manufacturing geographical spread (see paragraph B above, regarding the COVID-19 crisis and other global business environment effect, and Note 1B to the Consolidated Financial Statements as at December 31, 2021).

Gross profit - The Group's gross results for the year ended December 31, 2021 were USD 17,373 thousand (40%), compared with USD 18,140 thousand (41%), in the year ended December 31, 2020. The gross margin was influenced mainly by the sales products mix and by raw materials prices increase.

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, 2021 were USD 1,481 thousand compared with USD 1,365 thousand in the year ended December 31, 2020. The increase is explained mainly by the local currency (NIS) revaluation against the USD, as well as by an increase in the development team's labor cost.

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 (It is noted 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, 2021 amounted to USD 1,791 thousand (4%) compared with USD 1,759 thousand (4%) in the year ended December 31, 2020. In year 2021 similar to previous year (2020), due to the COVID-19 Epidemic, other selling expenses, mainly in travel expenses and exhibitions costs were lack.

General & Administrative expenses - The Group's General & Administrative expenses for the year ended December 31, 2021 amounted to USD 3,734 thousand compared with USD 3,385 thousand in the year ended December 31, 2020. The increase is explained mainly by the local currency (NIS and GBP) revaluation against the USD resulted in increase of labor cost and other general costs.

Finance income, net **-** The Group's finance income for the year ended December 31, 2021 amounted USD 25 thousand compared with USD 455 thousand for the year ended December 31, 2020. This decrease is explained mainly by the decrease of the market interest rate on bank deposits.

Information regarding - Transactions with related parties *(pursuant to note 16 G to the Consolidated Financial Statements as at December 31, 2021)*

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

	Year ended December 31				December 31	
	2021		2020		2021	2020
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Short-term employee benefits		**607**		538	**146**	93
Post-employment benefits		**27**		49	**128**	155
	5	**634**	4	587	**274**	248

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

	Year ended December 31				December 31	
	2021		2020		2021	2020
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Total compensation to directors not employed by the Group	**3**	**42**	4	38	**11**	10
Total compensation to key management personnel not employed by the Group (*)	**2**	**1,491**	2	1,431	**621**	630
Accounts receivable- The Parent Company	**-**	**-**	-	-	**128**	125

(*) Management fees and related benefits to Wichita Ltd. (see Note 13A) and to Yaarh-Looking To The Future Ltd. (see Note 13B) include an amount of USD 183 thousand (year ended December 31, 2020: USD 170 thousand) and an amount of USD 249 thousand (year ended December 31, 2020: USD 231 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, 2021 amounted USD 7,156 thousand, compared with the cash flows generated from operating activities of USD 11,210 thousand for the year ended December 31, 2020. The decrease in cash flows from operating activities resulted mostly from decrease in profit for the year, decrease in trade payable and increase in other accounts receivable.

B. Investing activities

Cash flows used for investing activities in the year ended December 31, 2021 amounted USD 8,914 thousand compared with cash flows generated from investing activities amounted USD 15,344 thousand in the year ended December 31, 2020. During year 2021 most of the cash flows used for investing activities used for investments in bank deposits and in marketable securities.

C. Financing activities

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. There were no cash flows used for financing activities in the year ended December 31, 2020.

4. Financing sources

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

5. Subsequent Events

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, to be paid during 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 will be subject to a beneficiary corporate tax rate*, at the amount of USD 900 thousands. It is noted that this dividend is submitted to a tax withholding of 15%.

** see note 17A(4) to the Consolidated Financial Statements as at December 31, 2021.*

6. External factors effects

- Regarding the COVID-19 crisis and other global business environment effect - see paragraph B above and Note 1B to the Consolidated Financial Statements as at December 31, 2021.
- Revaluation/devaluation of the local currencies, NIS and GBP, in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Group's salaries and other operating costs are fixed in local currencies; therefore, the operating results are affected.
- Devaluation of the Euro(€) and GBP(£) in relation to the U.S. Dollar leads to a decrease in Group's assets in those currencies.
- See also paragraph 1O above (Risk Factors).

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, 2021 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, 2022.

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, 2021, 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, 2021, and of 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

Revenue is a key performance indicator and of importance to the financial statements users. The Company has issued clear guidelines to its executives not to take any account of the pressure to meet expectations when preparing the financial statements. Nevertheless, the pressure to report on high revenues to the investors form an inherent risk that revenue at year-end may be recognized prematurely.

With respect to this audit matter, our audit procedures included an evaluation of design and implementation and of operating effectiveness of key internal controls surrounding the recording of revenues and of the adjustments arising from the implementation of IFRS 15, through performing test of controls on a sample basis. We extended sampling of transactions recorded close to the end of the year and checking that such transactions had met all criteria for revenue recognition in 2021, and therefore were included in the appropriate period. Such sampling included auditing purchase orders and terms of contracts to obtain evidence that the orders meet the criteria of IFRS 15 to recognize revenue over time, and therefore should be recognized prior to actual delivery. We also checked if any credit notes were issued in the subsequent period for revenues that were recognized in 2021, in order to obtain evidence of proper revenue recognition in 2021.

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

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, 2022

Consolidated Statements of Financial Position as at December 31

	Note	2021 $ thousands	2020 $ thousands
Current assets			
Cash and cash equivalents	4	**22,146**	31,325
Short-term deposits and marketable securities held for trading	5	**16,479**	13,054
Trade accounts receivable	6	**9,917**	9,665
Other accounts receivable	6	**3,226**	2,417
Inventory	7	**3,772**	3,462
Total current assets		**55,540**	59,923
Non-current assets			
Long-term deposits	5	**5,020**	-
Investment in equity accounted investee	8	**974**	1,019
Fixed assets	9	**10,222**	10,636
Intangible assets		**22**	22
Total non-current assets		**16,238**	11,677
Total assets		**71,778**	71,600

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

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

	Note	2021 $ thousands	2020 $ thousands
Liabilities and equity			
Current liabilities			
Trade payables		**4,088**	5,053
Other payables	10	**2,035**	1,905
Current tax liability		**809**	1,116
Employee benefits	11	**649**	553
Total current liabilities		**7,581**	8,627
Non-current liabilities			
Employee benefits	11	**731**	689
Deferred tax liabilities	17G	**1,141**	1,052
Total non-current liabilities		**1,872**	1,741
Total liabilities		**9,453**	10,368
Equity			
Share capital	15	**4,836**	4,836
Share premium		**8,993**	8,993
Retained earnings		**48,496**	47,403
Total equity		**62,325**	61,232
Total liabilities and equity		**71,778**	71,600

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, 2022

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	2021 $ thousands	2020 $ thousands
Revenues	16A	**43,980**	43,874
Cost of sales	16B	**(26,607)**	(25,734)
Gross profit		**17,373**	18,140
Development costs		**(1,481)**	(1,365)
Selling and marketing expenses	16C	**(1,791)**	(1,759)
General and administrative expenses	16D	**(3,734)**	(3,385)
Other income, net	16E	**1**	20
Operating profit		**10,368**	11,651
Finance income	16F	**193**	566
Finance expenses	16F	**(168)**	(111)
Finance income, net		**25**	455
Share of losses of equity accounted investee		**(52)**	(26)
Profit before taxes on income		**10,341**	12,080
Taxes on income	17E	**(1,821)**	(2,175)
Profit for the year		**8,520**	9,905
Other comprehensive income (loss) items that will not be transferred to profit and loss			
Remeasurement of defined benefit plan	11A	**(12)**	56
Share of other comprehensive income of equity accounted investee		**7**	20
Total other comprehensive income (loss)		**(5)**	76
Total comprehensive income for the year		**8,515**	9,981
Earnings per share			
Basic and diluted earnings per share (in $)	18	**0.48**	0.56

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, 2020	17,670,775	4,836	8,993	37,422	51,251
Total comprehensive income for the year					
Profit for the year	-	-	-	9,905	9,905
Other comprehensive income	-	-	-	76	76
Total comprehensive income for the year	-	-	-	9,981	9,981
Balance at December 31, 2020	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**

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

Consolidated Statements of Cash Flows for the year ended December 31

	Note	2021 $ thousands	2020 $ thousands
Operating activities			
Profit for the year		**8,520**	9,905
Adjustments:			
Depreciation	9	**891**	898
Taxes on income	17E	**1,821**	2,175
Share of losses of equity accounted investee	8	**52**	26
Gain on sale of fixed assets	16E	**(1)**	(20)
Finance income, net	16F	**(144)**	(584)
		11,139	12,400
Change in employee benefits	11	**125**	249
Increase in trade accounts receivable	6	**(252)**	(2,055)
Increase in other accounts receivable	6	**(940)**	(553)
Decrease (increase) in inventory	7	**(310)**	47
Increase (decrease) in trade payables		**(923)**	2,351
Increase in other payables	10	**130**	186
		8,969	12,625
Interest received	16F	**134**	642
Interest paid	16F	**(40)**	(9)
Income taxes paid, net	17	**(1,907)**	(2,048)
Cash flows generated from operating activities		**7,156**	11,210
Investing activities			
Proceeds from (investments in) deposits, net	5	**(7,399)**	15,967
Investments in marketable securities held for trading	5	**(997)**	-
Acquisition of fixed assets	9	**(523)**	(674)
Proceeds from sale of fixed assets	9, 16E	**5**	51
Cash flows generated from (used for) investing activities		**(8,914)**	15,344
Financing activities			
Dividend paid	15B	**(7,422)**	-
Cash flows used for financing activities		**(7,422)**	-
Net increase (decrease) in cash and cash equivalents		**(9,180)**	26,554
Cash and cash equivalents at beginning of the year		**31,325**	4,741
Effect of exchange rate fluctuations on cash and cash equivalents		**1**	30
Cash and cash equivalents at end of the year		**22,146**	31,325

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, 2021 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. Material events in the reporting period

The COVID-19 crisis effect

In the year 2021, similar to year 2020, it seems that, the Group’s flexibility and global spread, resulted in successfully handling this crisis. The manufacturing lines in Israel operated continuously while abiding all required distance regulations.
During the year 2021, also, the other Group’s members: the subsidiaries in England and United States continued their business operations in the same manner while keeping all needed measures and abiding with their local regulations.
Payton’s worldwide planning and manufacturing facilities and geographically spread of the Group's production sites in China, the Philippines, Israel, England and the United States minimized the effect of the COVID-19 epidemic and has proven itself effective enabling the delivery of most orders on time.
In spite of the recent outbreak of the fifth covid-19 wave, in Israel and in other places over the world, most of the companies got used to conduct their economic and business activities side by side the COVID-19 epidemic.
As at the date of signing these financial statements, all production sites are fully operational in a “Corona routine”.

Note 1 - General (cont'd)

C. 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, 2022.

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.

Note 2 - Basis of Preparation (cont'd)

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.

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 14, 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

2. Non-derivative financial liabilities (cont'd)

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

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	3-7 years	(mainly 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

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

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

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

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.

2. Non-financial assets

Timing of impairment testing
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.

Note 3 - Significant Accounting Policies (cont'd)

G. Impairment (cont'd)

2. Non-financial assets (cont'd)

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.

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 customize products for individual contracts, which provides the Group with additional knowhow for future potential orders. These development 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 flow 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.

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

IAS 1 Presentation of Financial Statements

Amendment to IAS 1, Presentation of Financial Statements: Classification of Liabilities as Current or Non-Current **(hereinafter - "the Amendment")**

The Amendment replaces certain classification requirements for current or non-current liabilities. Thus, for example, 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. A right is in existence at the end of the reporting period only if the entity complies with conditions for deferring settlement at that date. 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.

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.

Note 4 - Cash and Cash Equivalents

	December 31 2021	December 31 2020
	$ thousands	$ thousands
Bank balances	**22,146**	31,325

The Group's exposure to currency risks concerning cash and cash equivalents is disclosed in Note 14 on financial instruments.

Note 5 - Deposits and Marketable Securities Held for Trading

	December 31 2021	December 31 2020
	$ thousands	$ thousands
Current investments		
Short-term deposits (*)	**15,483**	13,054
Marketable securities held for trading:		
Stocks	**393**	-
Mutual funds	**603**	-
	996	-
	16,479	13,054
Non-current investments		
Long-term deposits (**)	**5,020**	-

(*) Include mainly, short-term deposits in dollars, bearing interest at an annual rate of approximately 0.72% - 0.92% (December 31, 2020: 1.05% - 1.50%).

(**) 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 14 on financial instruments.

Note 6 - Trade and Other Accounts Receivable

	December 31 2021	December 31 2020
	$ thousands	$ thousands
Trade accounts receivable		
Trade receivables	**9,925**	9,665
Less provision for doubtful debts	**(8)**	-
	9,917	9,665
Other accounts receivable		
Contract assets	**2,527**	1,889
Current tax assets	**-**	131
Government institutions	**14**	-
Related parties	**128**	125
Other receivables	**557**	272
	3,226	2,417

The Group's exposure to credit and currency risks concerning trade and other accounts receivable is disclosed in Note 14 on financial instruments.

Note 7 - Inventory

	December 31 2021	December 31 2020
	$ thousands	$ thousands
Raw and packing material	**2,760**	2,525
Work-in-process	**353**	389
Finished products	**659**	548
	3,772	3,462

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%) (hereinafter - "the option").
The fair value of this option as at December 31, 2021 and 2020, amounted USD 100 thousand, is presented under "Investment in Equity Accounted Investee".

Note 9 - Fixed Assets

	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	**292**	**148**	**41**	**-**	**481**
Disposals	**(5)**	**-**	**-**	**-**	**(5)**
Balance as of December 31, 2021	**4,280**	**638**	**2,015**	**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	**1,079**	**347**	**394**	**8,402**	**10,222**
Carrying amounts as of January 1, 2021	**1,060**	**271**	**578**	**8,727**	**10,636**

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Land and Buildings	Total
			$ thousands		
December 31, 2020					
Cost					
Balance as of January 1, 2020	3,636	453	1,761	12,109	17,959
Acquisitions	357	97	244	-	698
Disposals	-	(60)	(31)	-	(91)
Balance as of December 31, 2020	3,993	490	1,974	12,109	18,566
Accumulated depreciation					
Balance as of January 1, 2020	2,673	196	1,180	3,043	7,092
Depreciation for the year	260	68	231	339	898
Disposals	-	(45)	(15)	-	(60)
Balance as of December 31, 2020	2,933	219	1,396	3,382	7,930
Carrying amounts as of December 31, 2020	1,060	271	578	8,727	10,636
Carrying amounts as of January 1, 2020	963	257	581	9,066	10,867

Note 9 - 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 1,225 thousand as at December 31, 2021 (December 31, 2020: USD 1,245 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, 2021, the Company acquired fixed assets on credit in the amount of USD 15 thousand (December 31, 2020: USD 57 thousand). As of the date of signing these financial statements, the amount had been paid.

C. Advances paid on account of fixed assets

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

D. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2021 the original cost of such assets is USD 3,954 thousand (December 31, 2020: USD 3,507 thousand).

Note 10 - Other Payables

	December 31 2021	December 31 2020
	$ thousands	$ thousands
Employees and related benefits	**790**	733
Government institutions	**-**	4
Other payables and accrued expenses	**1,245**	1,168
	2,035	1,905

The Group's exposure to currency and liquidity risks concerning other payables is disclosed in Note 14 on financial instruments.

Note 11 - 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 11 - Employee Benefits (cont'd)

Composition of employee benefits:

	December 31 2021	December 31 2020
	$ thousands	$ thousands
Presented under current liabilities:		
Short-term employee benefits	**649**	553
Presented under non-current liabilities:		
Net liability for defined benefit plan	**731**	689
Total employee benefits	**1,380**	1,242

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 2021	December 31 2020
	$ thousands	$ thousands
Present value of defined benefit obligation	**2,478**	2,321
Fair value of plan assets	**(1,747)**	(1,632)
Net recognized liability for defined benefit obligations	**731**	689

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

	2021	2020
	$ thousands	$ thousands
Defined benefit obligations as at January 1	**2,321**	2,060
Benefits paid	**(146)**	(1)
Current service costs	**97**	98
Past service cost	**5**	-
Interest costs	**51**	60
Changes in respect of foreign exchange differences	**83**	171
Remeasurement of defined benefit plan	**67**	(67)
Defined benefit obligation as at December 31	**2,478**	2,321

Note 11 - Employee Benefits (cont'd)

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

2. Movements in plan assets

	2021	2020
	$ thousands	$ thousands
Fair value of plan assets as at January 1	**1,632**	1,402
Contributions by employer	**81**	78
Benefits paid	**(125)**	-
Past service cost	**5**	-
Interest income	**45**	37
Changes in respect of foreign exchange differences	**55**	114
Remeasurement of defined benefit plan	**54**	1
Fair value of plan assets as at December 31	**1,747**	1,632

3. Expenses recognized in profit or loss

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Current service costs	**97**	98
Interest costs	**51**	60
Interest income	**(45)**	(37)
Net change in respect of foreign exchange differences	**28**	57
	131	178

4. Recognized in other comprehensive income (loss)

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Defined benefit obligation:		
Actuarial losses from changes in financial assumptions	**(105)**	(15)
Actual return less interest income	**(17)**	(4)
Other actuarial gains	**53**	77
Changes in respect of foreign exchange differences	**2**	9
	(67)	67
Plan assets:		
Actual return less interest income	**68**	-
Other actuarial gains (losses)	**(16)**	1
Changes in respect of foreign exchange differences	**2**	-
	54	1
Net actuarial gains (losses) for the year	**(13)**	68

Note 11 - Employee Benefits (cont'd)

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

5. Actual return

	For the year ended December 31	
	2021	2020
	%	%
Actual return rate on plan assets	**6.59**	3.12

6. Actuarial assumptions and sensitivity analyses

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

	2021	2020
	%	%
Discount rate as at December 31	**0.45**	0.93
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	
	2021	2020	2021	2020
	$ thousands	$ thousands	$ thousands	$ thousands
Future salary growth	**226**	213	**(178)**	(185)
Discount rate	**(173)**	(173)	**218**	206

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

The Group expects to pay approximately USD 85 thousand in contributions to the funded defined benefit plan in 2022.

The Group estimates the plan's duration (based on weighted average) to be 9.90 years at the end of the reporting period (2020: 10.05 years).

B. Post-employment benefit plans - defined contribution plan

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Amount recognized as expense in respect of defined contribution plan	**476**	433

Note 11 - Employee Benefits (cont'd)

C. Short-term employee benefits

	December 31 2021	December 31 2020
	$ thousands	$ thousands
Provision for vacation and recreation	**636**	553
Post-employment benefits	**13**	-
	649	553

Note 12 - Investments in Subsidiaries

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2021:

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 13 - 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 53 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 27 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 14 - 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	
	2021	**2020**
	Carrying amount	
	$ thousands	**$ thousands**
Cash and cash equivalents	**22,146**	31,325
Deposits	**20,503**	13,054
Trade accounts receivable	**9,917**	9,665
Other accounts receivable	**2,655**	2,050
	55,221	56,094

Note 14 - 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	
	2021	2020
	Carrying amount	
	$ thousands	$ thousands
Israel	**9,967**	24,006
U.S.A.	**11,559**	6,806
U.K.	**610**	500
Asia	**10**	13
	22,146	31,325

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

	December 31	
	2021	2020
	Carrying amount	
	$ thousands	$ thousands
Israel	**20,503**	13,054

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

	December 31	
	2021	2020
	Carrying amount	
	$ thousands	$ thousands
Israel	**328**	492
Asia	**5,092**	4,835
Europe	**1,751**	1,856
U.S.A.	**2,736**	2,468
Canada	**10**	14
	9,917	9,665

Note 14 - 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	
	2021	2020
	Carrying amount	
	$ thousands	$ thousands
Customer A	**3,608**	3,213
Customer B	**1,367**	1,947

2. Aging of debts and impairment losses

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

	December 31			
	2021		2020	
	Gross	Impairment	Gross	Impairment
	$ thousands	$ thousands	$ thousands	$ thousands
Not past due	**8,561**	**-**	7,506	-
Past due 0-30 days	**1,177**	**-**	1,666	-
Past due 31-120 days	**173**	**-**	473	-
Past due 121 days to one year	**6**	**-**	20	-
Past due more than one year	**8**	**(8)**	-	-
	9,925	**(8)**	9,665	-

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, 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**

Note 14 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

	December 31, 2020		
	Carrying amount	Contractual cash flows	6 months or less
	$ thousands		
Non-derivative financial liabilities:			
Trade payables	5,053	5,053	5,053
Other payables	1,168	1,168	1,168
	6,221	6,221	6,221

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

Currency risk

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 14 - 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, 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**

	December 31, 2020					
	Dollar	**NIS**	**Euro**	**GBP**	**Other**	**Total**
			$ thousands			
Financial assets and financial liabilities:						
Current assets:						
Cash and cash equivalents	31,115	15	37	150	8	31,325
Short-term deposits	13,054	-	-	-	-	13,054
Trade and other receivables	10,844	478	98	295	-	11,715
Current liabilities:						
Trade payables	(4,489)	(425)	(33)	(106)	-	(5,053)
Other payables	(965)	(184)	(18)	-	(1)	(1,168)
	49,559	(116)	84	339	7	49,873

Note 14 - 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	
	2021	**2020**	**2021**	**2020**
	Rate of change		**Reporting date spot rate**	
	%	**%**	**NIS**	**NIS**
1 US dollar	**(3.27)**	(6.97)	**3.110**	3.215

	Year ended December 31		As at December 31	
	2021	**2020**	**2021**	**2020**
	Rate of change		**Reporting date spot rate**	
	%	**%**	**Euro**	**Euro**
1 US dollar	**8.34**	(8.53)	**0.883**	0.815

	Year ended December 31		As at December 31	
	2021	**2020**	**2021**	**2020**
	Rate of change		**Reporting date spot rate**	
	%	**%**	**GBP**	**GBP**
1 US dollar	**1.09**	(3.43)	**0.740**	0.732

(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 2020.

	Profit or loss	
	December 31 2021	**December 31 2020**
	$ thousands	**$ thousands**
Increase in the exchange rate of:		
5% in the NIS	**29**	(6)
5% in the Euro	**24**	4
5% in the GBP	**14**	17

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 14 - 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 (in U.S. dollars) which bear interest rates given by or affected by banks. The interest rate on deposits at the reporting date is in the range of 0.72%-0.95%.

(a) Profile

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

	December 31	
	2021	2020
	Carrying amount	
	$ thousands	$ thousands
Unlinked fixed rate instruments		
Financial assets	**20,503**	13,054

(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, 2021 and 2020 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 15 - Share Capital and Reserves

A. Share capital - Composition

	Number of shares	
	Authorized	Issued and paid
	December 31, 2021 and 2020	
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 15 - Share Capital and Reserves (cont'd)

B. Dividends

The following dividends were paid by the Company:

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
USD 0.42 per ordinary share	**7,422**	-

Note 16 - Statement of Profit or Loss Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Export	**43,077**	43,071
Israel	**903**	803
	43,980	43,874

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	
	2021	2020
	%	%
Customer A	**21**	31
Customer B	**17**	12

Note 16 - Statement of Profit or Loss Data (cont'd)

B. Cost of sales

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Materials consumed*	**19,201**	18,333
Salaries and related benefits	**5,638**	5,348
Depreciation	**530**	533
Other manufacturing expenses	**1,313**	1,412
Change in inventory of finished products and work in process	**(75)**	108
	26,607	25,734

* Includes inventory write-off of USD 218 thousand and USD 113 thousand for the years ended December 31, 2021 and 2020, respectively.

C. Selling and marketing expenses

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Salaries and related benefits**	**1,022**	968
Sales commissions	**609**	627
Advertising and marketing	**45**	43
Exhibits and travel abroad	**51**	47
Other	**64**	74
	1,791	1,759

** Includes expenses related to related parties in the amount of USD 432 thousand and USD 401 thousand for the years ended December 31, 2021 and 2020, respectively (see Note 16G).

D. General and administrative expenses

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Salaries and related benefits	**1,318**	1,151
Maintenance and communications	**245**	218
Depreciation	**361**	365
Professional services	**257**	262
Management fees and related benefits to related parties	**1,040**	1,017
Other	**513**	372
	3,734	3,385

Note 16 - Statement of Profit or Loss Data (cont'd)

E. Other income, net

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Capital gain on sale of fixed assets	**1**	20

F. Finance income and expenses

	For the year ended December 31	
	2021	2020
	$ thousands	$ thousands
Finance income		
Interest income from bank deposits	**176**	559
Interest income on cash	**1**	6
Income from marketable securities held for trading	**7**	-
Other	**9**	1
	193	566
Finance expenses		
Bank charges and others	**35**	35
Interest for delayed tax payments	**40**	9
Exchange rate differences, net	**80**	67
Other	**13**	-
	168	111

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	
	2021		2020		2021	2020
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Short-term employee benefits		**607**		538	**146**	93
Post-employment benefits		**27**		49	**128**	155
	5	**634**	4	587	**274**	248

Note 16 - 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	
	2021		2020		2021	2020
	Number of People	Amount	Number of People	Amount	Outstanding balance	
		$ thousands		$ thousands	$ thousands	$ thousands
Total compensation to directors not employed by the Group	**3**	**42**	4	38	**11**	10
Total compensation to key management personnel not employed by the Group (*)	**2**	**1,491**	2	1,431	**621**	630
Accounts receivable- The Parent Company	**-**	**-**	-	-	**128**	125

(*) Management fees and related benefits to Wichita Ltd. (see Note 13A) and to Yaarh-Looking To The Future Ltd. (see Note 13B) include an amount of USD 183 thousand (year ended December 31, 2020: USD 170 thousand) and an amount of USD 249 thousand (year ended December 31, 2020: USD 231 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 17 - Taxes on Income

A. Details regarding the tax environment of the Company

1. Corporate tax rate

The tax rate relevant in the years 2020 - 2021 is 23%.

Current taxes for the reported periods and deferred tax balances as at December 31, 2021 and 2020 are calculated according to the tax rate presented above. See also Note 17A(4) hereunder.

Note 17 - 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 17 - 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.

Regarding the implications of the temporary order concerning the dividend announced after the reporting date - see Note 20.

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% 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 2014 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 2018.

Note 17 - Taxes on Income (cont'd)

E. Composition of income tax expense

	For the year ended December 31	
	2021	**2020**
	$ thousands	**$ thousands**
Current year taxes	**1,731**	2,034
Deferred tax expense - creation and reversal of temporary differences, net	**90**	159
Adjustments for prior years	**-**	(18)
	1,821	2,175

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	
	2021	**2020**
	$ thousands	**$ thousands**
Tax rate	**23%**	23%
Profit before taxes on income	**10,341**	12,080
Income tax using the domestic corporations tax rate	**2,378**	2,778
Additional tax (tax saving) in respect of:		
Neutralization of tax calculated in respect of the Company's share in losses of equity accounted investee	**12**	6
Tax saving in respect of foreign subsidiaries	**(46)**	(23)
Non-deductible expenses and tax exempt income, net	**41**	10
Tax benefits due to Preferred Enterprise status	**(551)**	(589)
Taxes in respect of previous years	**-**	(18)
Others	**(13)**	11
	1,821	2,175

Note 17 - 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, 2020	164	(1,257)	(6)	(4)	(1,103)
Changes recognized in profit or loss	77	(46)	-	(190)	(159)
Changes recognized in other comprehensive income	(12)	-	-	-	(12)
Adjustments for prior years	-	222	-	-	222
Balance as at December 31, 2020	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)**

	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)**

Note 17 - 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	229	-	-	-	229
Offset of balances					(229)
Deferred tax asset in statement of financial position as at December 31, 2020					-
Deferred tax liability	-	(1,081)	(6)	(194)	(1,281)
Offset of balances					229
Deferred tax liability in statement of financial position as at December 31, 2020					(1,052)

(2) Unrecognized deferred tax liabilities

As at December 31, 2021 a deferred tax liability in the amount of USD 636 thousand (2020: USD 586 thousand) for temporary differences in the amount of USD 2,765 thousand (2020: USD 2,548 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, 2021 deferred tax assets have not been recognized mainly in respect of tax losses in the amount of USD 365 thousand (2020: USD 574 thousand) since currently it is not probable that future taxable profit will be available, against which the Group can utilize the benefits.

Note 18 - Earnings per Share

Basic and diluted earnings per share

	For the year ended December 31	
	2021	**2020**
Profit for the year ($ thousands)	**8,520**	9,905
Issued ordinary shares (in thousands of shares)	**17,671**	17,671
Basic and diluted earnings per ordinary share (in US$)	**0.48**	0.56

Note 19 - 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, 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**

	For the year ended December 31, 2020				
	Israel	**Europe**	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Revenues	1,638	8,766	10,906	22,564	43,874
Non-current assets	9,195	815	648	1,019	11,677

B. Information about sales to principal customers - see Note 16A(2).

Note 20 - Subsequent Events

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, to be paid during June 2022). Pursuant to the amendment of the law for the Encouragement of Capital Investments executed on November 15, 2021 (the temporary order - see Note 17A(4)), per Company's decision, this dividend will be subject to a beneficiary corporate tax rate, at the amount of USD 900 thousands.