



**Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2020 (Unaudited)**

Financial Statements as at March 31, 2020 (Unaudited)

Contents

	<u>Page</u>
Board of Directors Report	2
Review Letter	9
Condensed Consolidated Interim Financial Statements:	
Statements of Financial Position	10
Statements of Profit or Loss and Other Comprehensive Income	12
Statements of Changes in Equity	13
Statements of Cash Flows	14
Notes to the Condensed Consolidated Interim Financial Statements	15

The Board of Directors' Report¹ 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 three months ended on March 31, 2020.

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.

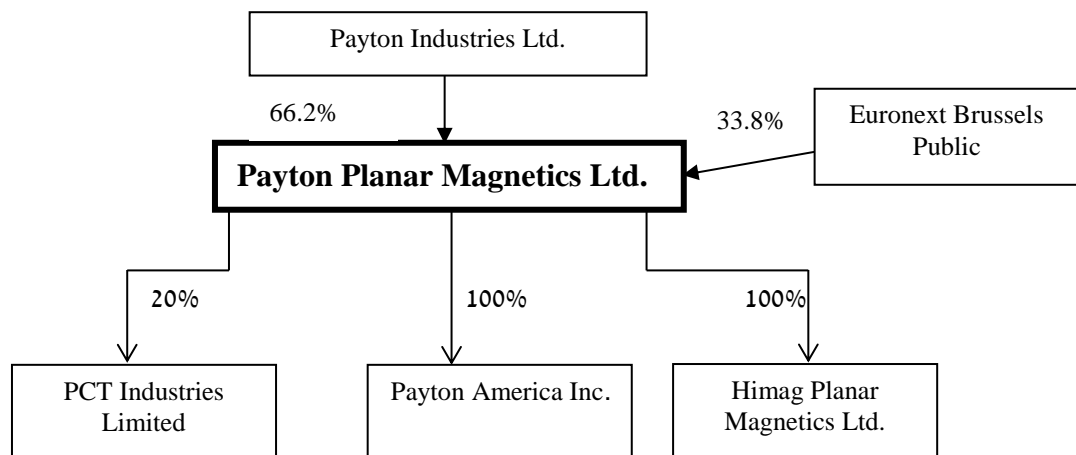
Reference in this report to forward looking statement shall be by stating that such information is given by way of estimation, evaluation, assessment, intentions, expectations, beliefs and similar terms, but it is possible that such information shall be given under other phrases.

This Board of Directors' report has been prepared as an interim financial report and as such should be read in conjunction with the consolidated financial statements as at December 31, 2019, published on March 25, 2020 (hereinafter "the 2019 yearly Report").

1. A concise description of the corporation and its business environment

A. The Group

Payton Planar Magnetics Ltd. ("the Company") its consolidated subsidiaries: Payton America Inc. ("Payton America") and Himag Planar Magnetics Ltd and its affiliated company in Hong-Kong, PCT Industries Limited ("PCT"), a holding company that fully owns a manufacturing subsidiary in China.



¹ The financial statements as at March 31, 2020 form an integral part thereof.

B. The Group's main fields of activity and changes that occurred in the period from January to March 2020

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 spread of the Corona Virus effect - According to present situation it seems that the activity in China and in Israel gradually returned to normal and the activity in the Philippines will gradually return to its regular course by the end of the second quarter of 2020.

From the beginning of the first quarter of 2020 and until today, the Group has been carefully managing the risks and its global operations. The Israeli facility was able to keep its production running, in two shifts, by following strict local rules. Most of the administrative personal operated remotely. The US and the UK subsidiaries were also able to keep business running while keeping social distance rules.

Payton's contingency plan, having manufacturing partners geographically spread, has proved itself. At the time the China facility was closed the production in the Philippines kept working. When the virus spread to the Philippines, the China facility was re-opened, thus, the Group was able to minimize the impact of the Corona Epidemic on its business activity and to deliver most of its orders for the first quarter of 2020 on time.

As of the date of signing these financial statements, management estimates that the first half of 2020 will be characterized by similar activity volume to the first half of 2019, thus, the Group will be able to continue in its regular course of business. However, regarding the second half year of 2020 and onwards, it is still difficult to foresee the future macroeconomic effect of the Corona Epidemic on the Group business activity.

In this context the Corona epidemic also caused high fluctuation of the exchange rates as well as changes in discount rate and plan assets interest, that influenced the actuarial assessments and estimations (see Note 4 - Employee Benefits, Interim Financial Statements as of March 31, 2020).

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

C. 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 three-month period ended March 31	For the year ended December 31	For the three-month period ended March 31
	2020	2019	2019
Customer A ¹	18%	28%	16%
Customer B	13%	*	*

* Less than 10% of the Group's consolidated sales.

¹ Comprised of sales to two related companies (parent and its subsidiary).

D. Marketing

During the first quarter of 2020 and due to the Corona Epidemic the Group did not participate in any exhibition. The Company was focusing on supporting and serving Key customers.

E. Order Backlog

Order backlog of the Group as of March 31, 2020 was USD 18,126 thousand (December 31, 2019 - USD 13,505 thousand). The backlog is composed only of confirmed orders.

Management estimates that most of the backlog as of 31.3.2020 will be supplied until December 31, 2020.

F. 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 C, as at 2019 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.

The engagement was done by means of a Nomination Letter defining the basic terms of the parties' engagement in the project, such as prices (including annual discounts), terms of payment and the annual quantities expected over the projects' life. In addition, the Company and Customer C have signed an agreement that includes general Terms and Conditions of engagement accepted in the industry, which regulate the general commercial relations between the parties (the Nomination Letter and the general terms of engagement are referred to above and hereinafter together as: "**the Framework Agreements**").

As of March 31, 2020, the Group estimates that only one of those three projects, with predicted orders in the scope of about USD 1.5 million per year, will be executed during the years 2020 to 2024.

With respect to the other two projects, the Company estimates that the forecast for 2019 and 2020, at the amount of USD 13 million, will not mature, hence the balance of projected orders according to the framework agreements for these two projects will total up to USD 50 million (for the years 2021 to 2025) for which the Group cannot evaluate whether those predicted orders will materialize and at what time table.

It is noted that the amounts and quantities specified in the Framework Agreements do not constitute as binding orders and the Customer is entitled to cancel, delay or reduce his actual orders, compared with the scope specified in the Framework Agreements, without the Company having any cause of action against him. However, the forecast of quantities included in the Framework Agreements binds the Company to supply such quantities as shall be required.

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

2. Financial position

A. Statement of Financial Position as at March 31, 2020

Cash and cash equivalents and Short-term Deposits - these items amounted to a total of USD 36,827 thousand as at March 31, 2020 compared to USD 33,841 thousand as at December 31, 2019 and USD 34,164 thousand as at March 31, 2019.

The increase in these items, compared with December 31, 2019 is explained mainly by Company's profitability, as well as from decrease in trade accounts receivable. The Group's management believes, a solid financial position, is an important factor in order to successfully overcome times of crisis.

Trade accounts receivable - these amounted to USD 6,398 thousand as at March 31, 2020 compared with USD 7,610 thousand as at December 31, 2019 and USD 4,527 thousand as at March 31, 2019.

The decrease in this item compared with December 31, 2019 resulted mainly due to decrease of Far-East oriented customer that were late at end of 2019 and collected during the first quarter of 2020.

The increase in this item compared with March 31, 2019 is mainly due to the increase in sales in the periods near the reports dates.

Other accounts receivable - these amounted to USD 1,573 thousand as at March 31, 2020 compared with USD 1,733 thousand as at December 31, 2019 and USD 2,266 thousand as at March 31, 2019. The decrease in this item is 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 March 31, 2020, such contract assets amounted to approximately USD 1.0 million compared to USD 1.2 million as at December 31, 2019 and USD 1.7 million as at March 31, 2019.

Trade payables - amounted to USD 2,053 thousand as at March 31, 2020 compared with USD 2,678 thousand as at December 31, 2019 and USD 1,952 thousand as at March 31, 2019. The decrease in this item compared with December 31, 2019, is explained mainly by decrease in purchases near the reported date, mainly from a manufacturing partner in the China (main supplier), as result of the corona virus effect.

B. Operating results

Statements of Income **US Dollars in thousands**

Payton Planar Magnetics Ltd. **Consolidated Comprehensive Income Statements**

	Quarter 1-3/2020	Quarter 1-3/2019	Year Ended 31/12/2019
Sales revenues	8,239	8,204	38,425
Cost of sales	(4,511)	(4,869)	(21,585)
Gross profit	3,728	3,335	16,840
Development costs	(327)	(300)	(1,299)
Selling & marketing expenses	(489)	(538)	(2,061)
General & administrative expenses	(813)	(827)	(3,432)
Other (expenses) income, net	-	(3)	(15)
Operating profit	2,099	1,667	10,033
Finance income	178	297	811
Finance expenses	(33)	(43)	(206)
Finance income, net	145	254	605
Share of (losses) profits of equity accounted investee	(82)	-	13
Profit before income taxes	2,162	1,921	10,651
Income taxes	(403)	(301)	(1,884)
Profit for the period	1,759	1,620	8,767
Other comprehensive income (loss) items that will not be transferred to profit & loss			
Remeasurement of defined benefit plan, net of taxes	112	-	(133)
Share of other comprehensive loss of equity accounted investee	(1)	-	(3)
Total other comprehensive income (loss)	111	-	(136)
Total comprehensive income for the period	1,870	1,620	8,631

General Note: The Group is exposed to abrasion of the USD in relation to the NIS, Euro (€) and the Pound (£). Most of the Group's salaries and other operating costs are fixed in local currencies. Revaluation of the local currencies drives to an increase or decrease in labor costs and other operating costs, thus, affects the operating results of the Company. The Corona Epidemic has also caused high fluctuation in exchange rates.

Sales revenues - The Group's sales revenues for the three-month period ended March 31, 2020 were USD 8,239 thousand compared with USD 8,204 thousand in the three-month period ended March 31, 2019. The Group succeeded to maintain its sales volume in spite of the Corona Epidemic worldwide effect thanks to its geographical spread and its effective conduct (see paragraph 1.B - *The spread of the Corona Virus effect*, above).

Gross profit - The Group's gross profit for the three-month period ended March 31, 2020 amounted USD 3,728 thousand (45% of sales) compared with USD 3,335 thousand (41% of sales) in the three-month period ended March 31, 2019. The improvement in the gross margins was influenced by the products mix and the production locations of each period.

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 three months ended March 31, 2020 were USD 327 thousand compared with USD 300 thousand in the same period last year.

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 three-month period ended March 31, 2020 were USD 489 thousand (6%) and USD 538 thousand (7%) in the three-month period ended March 31, 2019.

Finance income, net - The Group's finance income for the three-month period ended March 31, 2020 amounted USD 145 thousand compared with USD 254 thousand in the three-month period ended March 31, 2019. This decrease is explained mainly by a decrease of the market interest rate on bank deposits.

Share of losses of equity accounted investee - this represents the Group share (20%) in PCT's² losses for the first quarter of 2020. PCT quarterly results were mostly affected by the Corona Epidemic in China.

3. Liquidity

A. Operating activities

Cash flows generated from operating activities for the three-month period ended March 31, 2020 amounted USD 2,997 thousand, compared with cash flows generated from operating activities of USD 3,122 thousand for the three-month period ended March 31, 2019. The cash flows from operating activities generated mainly from the profit for the period and from decrease in account receivable, affected also by other non-cash adjustments and by the changes in assets and liabilities.

B. Investing activities

Cash flows generated from investing activities in the three-month period ended March 31, 2020, amounted USD 1,933 thousand, compared with cash flows used for investing activities at the amount of USD 85 thousand in the three-month period ended March 31, 2019. In the first quarter of 2020 cash flows generated mostly from proceeds of bank deposits.

² PCT Industries Limited holds a fully owned subsidiary in China, serving as Company's major manufacturing Partners (subcontractors) in China.

C. **Financing activities**

There were no cash flows used for financing activities in the three-month periods ended March 31, 2020 and 2019. During the year 2019 a dividend, at the amount of USD 5,301 thousand (announced March 27, 2019) was paid on June 2019.

4. **Financing sources**

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

5. **External factors effects**

The spread of the Corona Virus effect, see paragraph 1.B above.

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. The Corona Epidemic has also caused high fluctuation in exchange rates.

Devaluation of the Euro(€) and Pound(£) in relation to the U.S. Dollar leads to a decrease in Group's assets in those currencies.

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.

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

Pursuant to article 12 § 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 March 31, 2020 are drawn up in accordance with IFRS and with IAS 34 "Interim Financial 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 first three months of year 2020, their impact on the financial statements, the main risk factors and uncertainties for the remaining months of the financial year, as well as the main transactions with related parties and their possible impact on the abbreviated 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 extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

Ness Ziona, May 26, 2020.

David Yativ
Chairman of the Board
of Directors

Doron Yativ
Director and C.E.O.



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006, Israel
+972 3 684 8000

Review Report to the Shareholders of Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying financial information of Payton Planar Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of March 31, 2020 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the three month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34 “*Interim Financial Reporting*.”

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

May 26, 2020

Condensed Consolidated Interim Statements of Financial Position as at

	March 31	March 31	December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents	9,646	10,411	4,741
Short-term deposits	27,181	23,753	29,100
Trade accounts receivable	6,398	4,527	7,610
Other accounts receivable	1,573	2,266	1,733
Inventory	3,415	3,103	3,509
Total current assets	48,213	44,060	46,693
Non-current assets			
Investment in equity accounted investee	942	1,015	1,025
Fixed assets	10,781	11,337	10,867
Intangible assets	22	22	22
Total non-current assets	11,745	12,374	11,914
Total assets	59,958	56,434	58,607

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

Condensed Consolidated Interim Statements of Financial Position as at (cont'd)

	March 31 2020	March 31 2019	December 31 2019
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Liabilities and equity			
Current liabilities			
Trade payables	2,053	1,952	2,678
Other payables	1,753	1,868	1,719
Dividend payable	-	5,301	-
Current tax liability	830	1,164	795
Employee benefits	459	439	403
Total current liabilities	5,095	10,724	5,595
Non-current liabilities			
Employee benefits	516	427	658
Deferred tax liabilities	1,226	1,043	1,103
Total non-current liabilities	1,742	1,470	1,761
Total liabilities	6,837	12,194	7,356
Equity			
Share capital	4,836	4,836	4,836
Share premium	8,993	8,993	8,993
Retained earnings	39,292	30,411	37,422
Total equity	53,121	44,240	51,251
Total liabilities and equity	59,958	56,434	58,607

David Yativ
Chairman of the Board of
Directors

Doron Yativ
Chief Executive Officer

Michal Lichtenstein
V.P. Finance & CFO

Date of approval of the interim financial statements: May 26, 2020

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

Condensed Consolidated Interim Statements of Profit or Loss and Other Comprehensive Income

	For the three months ended		Year ended
	March 31		December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Revenues	8,239	8,204	38,425
Cost of sales	(4,511)	(4,869)	(21,585)
Gross profit	3,728	3,335	16,840
Development costs	(327)	(300)	(1,299)
Selling and marketing expenses	(489)	(538)	(2,061)
General and administrative expenses	(813)	(827)	(3,432)
Other expenses, net	-	(3)	(15)
Operating profit	2,099	1,667	10,033
Finance income	178	297	811
Finance expenses	(33)	(43)	(206)
Finance income, net	145	254	605
Share of (losses) profits of equity accounted investee	(82)	-	13
Profit before income taxes	2,162	1,921	10,651
Income taxes	(403)	(301)	(1,884)
Profit for the period	1,759	1,620	8,767
Other comprehensive income (loss) items that will not be transferred to profit and loss			
Remeasurement of defined benefit plan	112	-	(133)
Share of other comprehensive loss of equity accounted investee	(1)	-	(3)
Total other comprehensive income (loss)	111	-	(136)
Total comprehensive income for the period	1,870	1,620	8,631
Basic and diluted earnings per share (in \$)	0.10	0.09	0.50

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

Condensed Consolidated Interim Statement of Changes in Equity

	<u>Share capital</u>		<u>Share</u>	<u>Retained</u>	<u>Total</u>
	<u>Number of</u>	<u>\$ thousands</u>	<u>premium</u>	<u>earnings</u>	
	<u>shares</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
For the three months ended					
March 31, 2020 (Unaudited)					
Balance at January 1, 2020	17,670,775	4,836	8,993	37,422	51,251
Total comprehensive					
income for the period					
Profit for the period	-	-	-	1,759	1,759
Other comprehensive income	-	-	-	111	111
Total comprehensive					
income for the period	-	-	-	1,870	1,870
Balance at March 31, 2020	17,670,775	4,836	8,993	39,292	53,121
For the three months ended					
March 31, 2019 (Unaudited)					
Balance at January 1, 2019	17,670,775	4,836	8,993	34,092	47,921
Total comprehensive					
income for the period					
Profit for the period	-	-	-	1,620	1,620
Total comprehensive					
income for the period	-	-	-	1,620	1,620
Transactions with owners,					
recognized directly in equity					
Dividend to owners	-	-	-	(5,301)	(5,301)
Balance at March 31, 2019	17,670,775	4,836	8,993	30,411	44,240
For the year ended					
December 31, 2019 (Audited)					
Balance at January 1, 2019	17,670,775	4,836	8,993	34,092	47,921
Total comprehensive					
income for the year					
Profit for the year	-	-	-	8,767	8,767
Other comprehensive loss	-	-	-	(136)	(136)
Total comprehensive					
income for the year	-	-	-	8,631	8,631
Transactions with owners,					
recognized directly in equity					
Dividend to owners	-	-	-	(5,301)	(5,301)
Balance at December 31, 2019	17,670,775	4,836	8,993	37,422	51,251

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

Condensed Consolidated Interim Statements of Cash Flows

	For the three months ended		Year ended
	March 31		December 31
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Operating activities			
Profit for the period	1,759	1,620	8,767
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation	231	232	981
Income taxes	403	301	1,884
Share of losses (profits) of equity accounted investee	82	-	(13)
Capital loss on sale of fixed assets	-	3	15
Finance income, net	(153)	(239)	(701)
Increase in employee benefits	52	89	120
Decrease (increase) in trade accounts receivable	1,212	1,624	(1,459)
Decrease (increase) in other accounts receivable	160	(487)	44
Decrease (increase) in inventory	94	178	(228)
(Decrease) increase in trade payables	(620)	(170)	778
Increase in other payables	34	186	37
Interest received	14	44	723
Interest paid	-	-	(41)
Tax paid	(271)	(259)	(2,118)
Cash flows generated from operating activities	2,997	3,122	8,789
Investing activities			
Proceeds from (investments in) deposits, net	2,083	-	(5,540)
Investment in fixed assets	(150)	(95)	(629)
Proceeds from sale of fixed assets	-	10	31
Cash flows generated from (used for) investing activities	1,933	(85)	(6,138)
Financing activities			
Dividend paid	-	-	(5,301)
Cash flows used for financing activities	-	-	(5,301)
Net increase (decrease) in cash and cash equivalents	4,930	3,037	(2,650)
Cash and cash equivalents at the beginning of the period	4,741	7,366	7,366
Effect of exchange rate fluctuations on cash and cash equivalents	(25)	8	25
Cash and cash equivalents at the end of the period	9,646	10,411	4,741

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

Notes to the Condensed Consolidated Interim Financial Statements

Note 1 - General

A. Reporting entity

Payton Planar Magnetics Ltd. ("the Company") was incorporated 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"). The securities of the Company are registered for trade on the Euronext stock exchange in Brussels.

The condensed consolidated interim financial statements of the Group as at March 31, 2020 comprise the Company and its subsidiaries (together referred 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

Effects of the spreading of the Corona Virus

According to present situation it seems that the activity in China and in Israel gradually returned to normal and the activity in the Philippines will gradually return to its regular course by the end of the second quarter of 2020.

From the beginning of the first quarter of 2020 and until today, the Group has been carefully managing the risks and its global operations. The Israeli facility was able to keep its production running, in two shifts, by following strict local rules. Most of the administrative personal operated remotely. The US and the UK subsidiaries were also able to keep business running while keeping social distance rules.

Payton's contingency plan, having manufacturing partners geographically spread was effective. At the time the China facility was closed the production in the Philippines kept working. When the virus spread to the Philippines, the China facility was re-opened, thus, the Group was able to minimize the impact of the Corona Epidemic on its business activity and to deliver most of its orders for the first quarter of 2020 on time.

As of the date of signing these financial statements, it seems that in the second quarter of 2020 the Group will also be able to continue in its regular course of business. However, regarding the second half year of 2020 and onwards, it is still difficult to foresee the future macroeconomic effect of the Corona Epidemic on the Group business activity.

In this context the Corona epidemic also caused high fluctuation of the exchange rates as well as changes in discount rate and plan assets interest, that influenced the actuarial assessments and estimations (see Note 4 regarding Employee Benefits).

Notes to the Condensed Consolidated Interim Financial Statements

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2019 (hereinafter “annual financial statements”). These condensed consolidated interim financial statements were authorized for issue by the Company’s Board of Directors on May 26, 2020.

B. Use of estimates and judgments

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements.

Note 3 - Significant Accounting Policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements.

Note 4 - Employee Benefits

In the first quarter of 2020, there was an increase in the yield rates of high quality corporate debentures in Israel that are used for discounting a defined benefit obligation.

In addition, due to the significant decreases that occurred in the value of financial assets during the reporting period following the spread of the Corona Virus, there was a decrease in the value of plan assets.

The net effect of the above was a decrease in the defined benefit obligation and an adjustment in deferred tax balances as at March 31, 2020 in the amount of USD 138 thousand and USD 26 thousand, respectively, which were recognized against other comprehensive income.

Notes to the Condensed Consolidated Interim Financial Statements

Note 5 - Earnings Per Share**Basic and diluted earnings per share**

	For the three months ended		Year ended
	March 31		December 31
	2020	2019	2019
	\$ thousands	\$ thousands	\$ thousands
	(Unaudited)	(Unaudited)	(Audited)
Profit for the period (\$ thousands)	1,759	1,620	8,767
Issued ordinary shares (in thousands of shares)	17,671	17,671	17,671
Basic and diluted earnings per ordinary share (in US\$)	0.10	0.09	0.50

Note 6 - Operating Segments

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

Management observes the operating data up to the net profit, in consistent of the consolidated financial reports presented in accordance with IFRS.