Payton Planar Magnetics Ltd.

Annual Report 2023

Contents

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, 2023

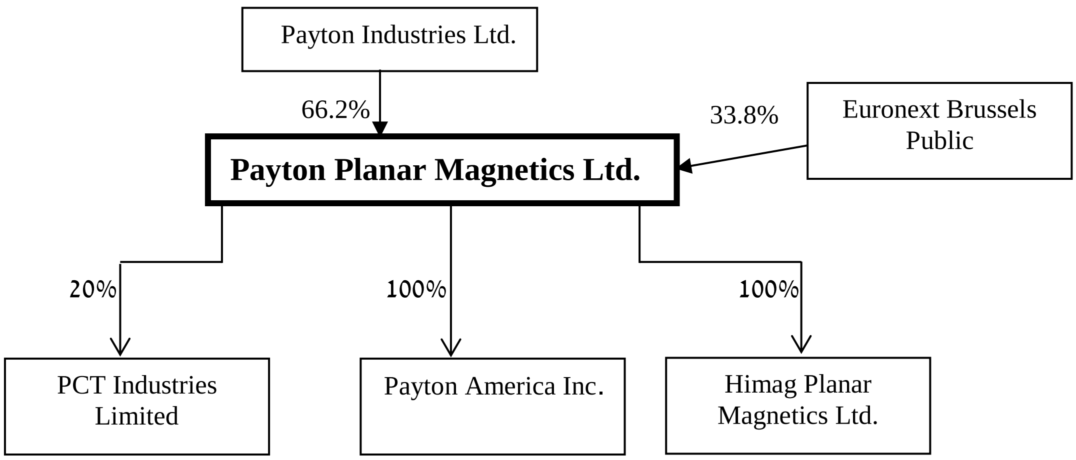
***Notice**: This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the 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. A concise description of the corporation and its business environment

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, 2023 form an integral part thereof.

B. The Group's main fields of activity and changes that occurred in the period from January to December 2023

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.

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

- In 2023 the global slowdown environment continued. It seems that, decrease in demands, excess inventory levels and the high interest rate are factors influencing customers activity and sometimes resulting in push-out of scheduled deliveries up on their needs. High prices of raw materials and high manpower costs remain relevant too. Management believes these trends are not expected to end in the near future.

  Additional factors that affect the Group's activity are: the ***devaluation of the US$*** against the local NIS, the Euro and the Pound, which mainly decreases local labor costs and other operating costs in Israel and the United Kingdom. During year 2023 the US$ devaluation became more significant.

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

  Increase of global interest rate - since the Company does not hold loans, the Group is not expected to have a material negative impact due to the increase in the global interest rate, on the contrary, deposits' income increased.
- On October 7th 2023, a war broke out in the state of Israel ("the War"). The War consequences have not significantly affected the Group's day-to-day operations. The Group's local facility, that is located in the center area of Israel, rapidly adapted a working routine and continued its ongoing business . As of this date, the Group's local facility is fully operative providing products and services on a regular basis to its customers.

  Thanks to the Group's financial and operational strength, wide business diversification, global dispersion of production sites and raw material suppliers, the Group's management believes it should be able to continue its ongoing business fully and continuously.

  Based on the information the Group has at the date of approval of these financial statements, this War is not expected to have a material impact on the Group's activity and results. However, due to uncertainty involved and lack of information regarding the duration of the War, the Group is currently unable to foresee and assess the future effects of the War.

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

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

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

On January 24, 2024 - the Company's Board of Directors announced dividend distribution for the financial year 2023, at the amount of USD 10,072 thousand (USD 0.57 per share) which was paid in full in March 2024.

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 2023, the Group kept operating its activities in: North America, Europe, Japan, China, S. Korea, India and UK.

Sales for the year ended December 31, 2023 amounted to USD 54,856 compared with USD 60,270 thousand for the year ended December 31, 2022, reflecting 9% decrease which is reasonable with the global slowdown environment.

Revenues for the year ended 2023 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**
	2023	**2022**
Quanta Computer Inc.[(1)]	15%	29%
Customer B[(2)]	16%	17%
Customer C[(2)]	14%	*

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

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

(2) Customer related to the Automotive industry.

E. Marketing

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

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

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

F. 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.

G. 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.

H. Order Backlog

As at December 31, 2023 this backlog amounted to USD 30,765 thousand, and as at March 18, 2024 to USD 32,800 thousand (December 31, 2022 - USD 43,839 thousand). The backlog is composed of the Company and its two fully owned subsidiaries firm orders.

	Order Backlog **US$ in thousands**	
	December 31, 2023	**March 18, 2024**
Delivery due date within first quarter of 2024	10,497	1,584
Delivery due date within second quarter of 2024	9,936	13,164
Delivery due date within third quarter of 2024	7,364	10,254
Delivery due date within fourth quarter of 2024	2,478	6,511
Delivery due date is after 1.1.2025	490	1,287
Total	30,765	32,800

It should be noted that in light of global slowdown sometimes customers tend to postpone scheduled deliveries up on their needs. Such changes of delivery dates may lead to a different sales volume than indicated above according to the quarterly order backlog split.

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

I. Framework agreements that do not constitute binding orders

As of December 31, 2023 and the date of approval of the financial statements, the Group has no material framework agreements.

J. 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 2023, the Group employed about 172 people. The Company retains employment contracts with most of its key employees and is of the opinion that relations with its employees are satisfactory.

K. 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).

L. 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.

M. Coming year outlook

In 2024 the Group is preparing to cope with the slowdown global markets. There are some push-out of scheduled deliveries up based on customer needs, and great caution needs to be taken with regards to purchases forecast and inventory planning. The raw materials prices are high and no significant price reduction is expected in coming future. At this stage, it is not possible to assess the extent of the impact of the trends described above on the Group's activities.

With regards to the War, currently, there is no material impact on the Group's activity and results. However, it is still impossible to foresee and assess long future effects.

The Group plans to continue investing efforts to improve and efficient its production capacity as well as integration of automation. In addition to its normal course of business the Group will continue its ongoing searching of new markets as well as other business opportunities providing innovative solutions and new technologies as in order to keep expanding its customer base, core business, enlarging its market share and maximize business challenges to the greatest possible extent.

The Group will also continue its ongoing search for business and M&A opportunities, synergetic to its core business, in order to expand its activity. (When and if the FIMI[2] transaction is completed, the Company will examine the need to update its goals and targets as necessary).

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

[2] Fimi Opportunity 7, LP. See paragraph 5-Subsequent Events, hereinafter.

N. Risk Factors

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

O. 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, 2023

***Cash and cash equivalents, Short-term Deposits and marketable securities* -** these items amounted to a total of USD 56,186 thousand as at December 31, 2023 compared to USD 45,237 as at December 31, 2022. Despite the dividend payment during year 2023, Company presents increase in Cash and cash equivalents attributed mainly to Company's profitability.

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

***Investment in equity accounted investee* -** represents the investment in PCT[3] (20%) engaged in manufacturing and assembly that serves as one of the Company's major manufacturing Partners in China.

The investment amounted to USD 1,409 thousand as at December 31, 2023 compared with USD 1,427 thousand as at December 31, 2022. The decrease resulted from a write-off of the option to increase Company's share in PCT, estimated at a value of USD 100 thousand, which expired in 2023 without exercise. In addition, during year 2023 PCT paid dividend to its shareholders. Company received USD 128 thousand which was also deducted from this investment. Investee's profits during year 2023 shortened these two investment decreases.

***Trade payables* -** amounted to USD 3,663 thousand as at December 31, 2023 compared with USD 1,419 thousand as at December 31, 2022. The increase in this item is mainly explained by decrease of advance payment made in favor of a principal subcontractor including returning to its normal payment terms.

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 2023, about 6%). It is noted that during 2023 in light of high exchange rate, some NIS balances were kept in short term deposits bearing interest rate of about 5%.

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 (94%) during 2023 were in USD or were linked to the USD. Approximately 2% of the Group's sales in 2023 were in Euro, 1% were in NIS, and about 3% were in GBP.

During 2023, approximately 96% of the costs of raw material and finished goods purchased by the Group were in USD or were linked to the USD.

During 2023, approximately 82% of the Group's salaries were in New Israeli Shekel ("NIS") and about 7% were in GBP.

[3] See paragraph 1A above - ***"The Group"***.

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 2023 the Company seldom used some derivatives as a tool for hedging, mainly in order to hedge its labor costs paid in NIS. With regards to all other operating costs, there is no need to use derivatives since hedging is being kept inherently as part of the operational activity.

C. Operating results

Summary of Consolidated Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Total 2023	Total 2022	Quarter 10-12/23	Quarter 7-9/23	Quarter 4-6/23	Quarter 1-3/23
Revenues	54,856	60,270	15,097	15,018	12,684	12,057
Cost of sales	(30,753)	(35,778)	(8,872)	(7,918)	(7,322)	(6,641)
Gross profit	*24,103*	*24,492*	*6,225*	*7,100*	*5,362*	*5,416*
Development costs	(1,442)	(1,545)	(352)	(335)	(423)	(332)
Selling & marketing expenses	(2,152)	(1,932)	(597)	(481)	(575)	(499)
General & administrative expenses	(3,863)	(3,864)	(866)	(875)	(1,126)	(996)
Other income (expenses), net	(245)	57	(253)	(2)	-	10
Operating profit	*16,401*	*17,208*	*4,157*	*5,407*	*3,238*	*3,599*
Finance income (expenses), net	1,881	200	844	289	453	295
Share of profits (losses) of equity accounted investee	218	481	174	45	(22)	21
Profit before taxes on income	*18,500*	*17,889*	*5,175*	*5,741*	*3,669*	*3,915*
Taxes on income	(3,234)	(3,972)	(973)	(978)	(636)	(647)
Net profit for the year/period	*15,266*	*13,917*	*4,202*	*4,763*	*3,033*	*3,268*
Other comprehensive income (loss) items that will not be transferred to profit &loss						
Remeasurement of defined benefit plan	27	226	27	-	-	-
Share of other comprehensive income (loss) of equity accounted investee	(6)	(28)	5	(10)	(6)	5
Total other comprehensive income (loss), net of tax	21	198	32	(10)	(6)	5
Total comprehensive income for the year/period	*15,287*	*14,115*	*4,234*	*4,753*	*3,027*	*3,273*

General Note: The Group is exposed to abrasion of the USD in relation to the NIS, Euro (€) and the Pound (£). Most of the Group's salaries and other operating costs are fixed in local currencies. Revaluation/devaluation of the local currencies drives to an increase/decrease in labor costs and other operating costs, thus, affects the operating results of the Company (it is noted that during year 2023 average exchange rate of the NIS verses the USD increased by about 10% reflected a decrease in labor costs and in other local operating costs).

Sales revenues - The Group's sales revenues for the year ended December 31, 2023 were USD 54,856 thousand compared with USD 60,270 thousand for the year ended December 31, 2022, representing 9% decrease that reflects the global demand decrease and the postponements of deliveries per customer's request in several projects.

Gross profit - The Group’s gross results for the year ended December 31, 2023 were USD 24,103 thousand (44%), compared with USD 24,492 thousand (41%), in the year ended December 31, 2022. The gross margin is influenced mainly by the sales products mix and production locations, in addition the devaluation of the USD versus the local currencies (NIS and GBP) resulted in a decrease in labor costs and other local operating costs.

Development costs **-** Payton’s strategy is aimed on maintaining the leadership of the Planar Technology. The Engineering Department works in conjunction with engineering departments of the forerunners of today’s global technology. Development costs are mainly incurred to design and customize products for specific orders. These development costs, mainly engineering labor costs, are based upon time expended by the department’s employees. The Group’s development costs for the year ended December 31, 2023 were USD 1,442 thousand compared with USD 1,545 thousand in the year ended December 31, 2022, most of this decrease was an outcome of the devaluation of the USD versus the NIS resulted in engineering labor costs decrease.

Selling & marketing expenses **-** The Group’s selling & marketing expenses are mainly comprised of: (1) commissions to the Group's reps’ and Marketing Personnel, which are calculated as a portion of sales, however it is further explained that not all the sales are subject to reps’ commissions and of (2) other selling expenses (fixed) based on management policy. The Group’s marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network. The Group’s selling & marketing expenses for the year ended December 31, 2023 amounted to USD 2,152 thousand (4%) compared with USD 1,932 thousand (3%) in the year ended December 31, 2022. The increase in year 2023 resulted mainly due to increase in other marketing expenses mainly digital marketing and travel expenses and as well as increase in sales commission and incentives of marketing team worldwide.

General & Administrative expenses **-** The Group’s General & Administrative expenses for the year ended December 31, 2023 amounted to USD 3,863 thousand compared with USD 3,864 thousand in the year ended December 31, 2022.

Finance income, net - The Group’s finance income for the year ended December 31, 2023 amounted to USD 1,881 thousand compared with USD 200 thousand for the year ended December 31, 2022. This increase is mainly explained by the increase of the market interest rate on bank deposits.

Taxes on income **-** for the year ended December 31, 2023 amounted to USD 3,234 thousand compared with USD 3,972 thousand in the year ended at December 31, 2022. On previous year (2022) Company applied the Temporary Order to the Law for the Encouragement of Capital Investments enabling it a beneficiary corporate tax rate on its exempt profits and paid an exceptional tax expenses at the amount of USD 0.9 million. See also Notes 13A & 13F to the 2023 yearly Report.

D. ***Information regarding - Transactions with related parties*** *(pursuant to note 17 to the Consolidated Financial Statements as at December 31, 2023)*

D.1 Balances with key management personnel and interested and related parties

December 31, 2023

	Equity accounted investee	The Parent Company	Key management personnel employed by the Group	Key management personnel not employed by the Group	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Payables:					
Short-term employment benefits	-	-	**99**	-	-
Post-employment benefits	-	-	**27**	-	-
Trade payables	**152**	-	-	-	-
Other payables	-	-	-	**723**	**9**

December 31, 2022

	Equity accounted investee	The Parent Company	Key management personnel employed by the Group	Key management personnel not employed by the Group	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Receivables:					
Other accounts receivable	287	82	-	-	-
Payables:					
Short-term employment benefits	-	-	109	-	-
Post-employment benefits	-	-	33	-	-
Trade payables	125	-	-	-	-
Other payables	-	-	-	706	12

D.2 Transactions with related parties

	Equity accounted investee	
	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Purchases	**9,504**	14,857

D.3 Compensation to key management personnel and interested parties

For the year ended December 31, 2023

	Key management personnel employed by the Group	Key management personnel not employed by the Group (*)	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands
Short-term employee benefits	**510**	-	-
Post-employment benefits	**51**	-	-
Other	-	**1,604**	**38**
Total	**561**	**1,604**	**38**
Number of people	**3**	**2**	**3**

Compensation to key management personnel and interested parties (Cont.)

For the year ended December 31, 2022

	Key management personnel employed by the Group	Key management personnel not employed by the Group (*)	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands
Short-term employee benefits	500	-	-
Post-employment benefits	(48)	-	-
Other	-	1,571	39
Total	452	1,571	39
Number of people	5	2	3

(*) Management fees and related benefits to Wichita Ltd. (see Note 14A) and to Yaarh-Looking To The Future Ltd. (see Note 14B) include an amount of USD 184 thousand and an amount of USD 251 thousand, respectively, for each of the years ended December 2023, and 2022, 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, 2023, amounted USD 19,204 thousand, compared with the cash flows generated from operating activities of USD 11,634 thousand for the year ended December 31, 2022. The increase in cash flows from operating activities generated from increase in the net profit and mostly from increase in trade payables as well as from other non-cash adjustments and changes in assets and liabilities.

B. Investing activities

Cash flows used for investing activities in the year ended December 31, 2023 amounted USD 2,636 thousand compared with cash flows used for investing activities of USD 6,409 thousand in the year ended December 31, 2022. The decrease in cash flows used for investing activities in the year ended December 31, 2023 compared with previous year (2022) is explained mainly by the decrease of the investment in bank deposits, net.

C. Financing activities

Cash flows used for financing activities for the year ended December 31, 2023, amounted USD 8,482 thousand, representing a dividend payment (announced March 28, 2023) that was paid on June 2023.

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

[After the reporting date, on January 24, 2024, the Company declared a dividend in the amount of USD 10,072 thousand, USD 0.57 per share].

4. Financing sources

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

5. Subsequent Events

On January 24, 2024, the Company's Board of Directors decided to pay to its shareholders a dividend for the financial year 2023 in the amount of USD 10,072 thousand, USD 0.57 per share (paid on March 5, 2024). The dividend is submitted to a tax withholding of 15%.

On February 14, 2024, the Parent Company, Payton Industries Ltd, entered into an agreement with FIMI ISRAEL OPPORTUNITY 7, a Limited Partnership, and FIMI Opportunity 7, LP a Limited Partnership (together hereinafter: "FIMI"), to allocate 1,468,057 ordinary shares of the Parent Company (hereinafter: "Allocated Shares") which, subject to their allocation, shall constitute approximately 17.76% of the Parent Company's issued and outstanding share capital and voting rights (hereinafter: the "Share Purchase Agreement"), all conditional upon the occurrence of certain conditions.

Simultaneously Mr. David Yativ, the controlling shareholder of the Parent Company (hereinafter: "**Yativ**") has entered into an agreement to sell to FIMI 1,000,000 shares of the Parent Company, constituting around 12.09% of the Parent Company's share capital. Furthermore, FIMI and Yativ agreed on the terms of a shareholders' rights agreement that will be executed on the closing of the transaction.

It is hereby clarified that the completion of the Share Purchase Agreement and the other transactions described above (hereinafter: "the FIMI Transaction") are subject, inter alia, to the approval of the Parent Company's Shareholders' meeting, to be held on April 8, 2024.

On February 28, 2024 the Parent Company's board of directors has decided to grant certain employees of the Company with options to purchase shares of the Parent Company, according to the Parent Company's incentive option plan and subject to the completion of the FIMI Transaction and to the approval of the updated remuneration policy by the Company Shareholders' meeting.

Among the above-mentioned employees: Mr. Doron Yativ[4] and Mr. Amir Yativ[5] who will be granted with 30,000 and 20,000, respectively, non-marketable options of the Parent Company.

On March 7, 2024, the Company's remuneration committee and the Board of Directors have examined the updated remuneration policy, found it fair, logic and appropriate and decided to approve it. In addition the above mentioned quorums approved the Company's participation in the service fee of FIMI for the consulting services to be provided to Payton Group as part of the FIMI Transaction, for a period of 3 years, for a monthly payment of NIS 40 thousand to be shared equally between the Company and the Parent Company (the participation amount shall be examined and adjusted on a yearly basis according to the actual services). The above resolutions are subject to the approval of the Company's shareholders' meeting, to be held on April 15, 2024.

[4] David Yativ's son serves as a director and the CEO of the Company.
[5] David Yativ's son serves as an engineering and development manager.

6. External factors effects

- Global slowdown environment, decrease in demands, excess inventory levels and the high interest rate are factors influencing customers activity and sometimes resulting in push-out of scheduled deliveries up on their needs - see paragraph B above.
- For the effect of 'Risk Factors' - see paragraph 1N above.

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

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

Pursuant to article 13 § 2,3 of the Royal Decree of 14 November 2007, David Yativ Chairman of the Board of Directors declares, on behalf of and for the account of Payton Planar Magnetics that, as far as is known to him,
a) The financial statements at December 31, 2023 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 27, 2024.

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

PAYTON PLANAR MAGNETICS LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2023

I N D E X

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Building a better working world

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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, 2023, and the consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

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, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA Code) and we have fulfilled our ethical responsibilities in accordance with the IESBA Code. 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. For the matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition
As discussed in Notes 2E and 16A to the consolidated financial statements, revenues for the year ended December 31, 2023, are USD 54.9 million. According to IFRS 15, the Company recognizes revenue from goods with no alternative use over time. The Company's revenues are generated from the sale of goods manufactured according to customer specifications and based mainly on non-cancelable and non-refundable terms. The Company is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Customer-specific goods cannot be sold to any other customer and therefore have no alternative use. Furthermore, and due to the materiality of revenue to the financial statements of the Company, and the significant management judgment involved in the revenue recognition process, we identified revenue recognition as a key audit matter.

How our audit addressed the key audit matter
With respect to this audit matter, our main audit procedures included obtaining an understanding of the design and implementation of key internal controls surrounding the recording of revenues. We sampled revenues while focusing on transactions recorded close to the year-end and in the beginning of the subsequent period, and checked that such transactions were included in the appropriate period. Our testing included sampling of source documents such as purchase orders and reviewing terms of contracts with customers to obtain evidence that revenues recorded meet the criteria of IFRS 15. We also checked if any credit notes were issued in the subsequent period in order to obtain evidence of proper revenue recognition in 2023.

Other Matter
The financial statements of Payton Planar Magnetics Ltd. for the year ended December 31, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on March 28, 2023.

Other Information in the Company's 2023 Annual Report
Other information consists of the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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 IFRSs, 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, actions taken to eliminate threats or safeguards applied.

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

European Uniform Electronic Format (ESEF)

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

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

It is our responsibility to obtain sufficient and appropriate information to conclude whether the format and the tagging of the digital consolidated financial statements comply, in all material respects, with the ESEF requirements under the Delegated Regulation.
In our opinion, based on our work performed, the format of and the tagging of information in the official English version of the digital consolidated financial statements as per March 27, 2024, included in the annual financial report of Payton Planar Magnetics Ltd., are, in all material respects, prepared in compliance with the ESEF requirements under the Delegated Regulation.

The partner in charge of the audit resulting in this independent auditors' report is Mr. Shahar Zvulun.

Tel-Aviv, Israel	KOST FORER GABBAY & KASIERER
March 27, 2024	A Member of Ernst & Young Global

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2023 $ thousands	December 31, 2022 $ thousands
Current assets			
Cash and cash equivalents	3	**26,921**	19,003
Short-term deposits and marketable securities	4	**29,265**	26,234
Trade accounts receivable	5	**9,546**	10,374
Other accounts receivable	6	**2,804**	2,255
Inventory	7	**3,932**	4,519
Total current assets		**72,468**	62,385
Non-current assets			
Investment in equity accounted investee	8	**1,409**	1,427
Other investment	8	**900**	900
Property, plant and equipment	9	**9,830**	10,312
Intangible assets		**22**	22
Total non-current assets		**12,161**	12,661
Total assets		**84,629**	75,046

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	December 31, 2023 $ thousands	December 31, 2022 $ thousands
Liabilities and equity			
Current liabilities			
Trade payables		**3,663**	1,419
Other payables	10	**2,039**	2,103
Current income tax liability		**1,520**	922
Employee benefits	12	**493**	557
Total current liabilities		**7,715**	5,001
Non-current liabilities			
Employee benefits	12	**381**	414
Deferred tax liabilities	13D	**1,311**	1,214
Total non-current liabilities		**1,692**	1,628
Total liabilities		**9,407**	6,629
Equity			
Share capital	15	**4,836**	4,836
Share premium		**8,993**	8,993
Retained earnings		**61,393**	54,588
Total equity		**75,222**	68,417
Total liabilities and equity		**84,629**	75,046

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 27, 2024

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

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended December 31,	
		2023	2022
	Note	$ thousands	$ thousands
Revenues	16A	**54,856**	60,270
Cost of sales	16B	**(30,753)**	(35,778)
Gross profit		**24,103**	24,492
Development costs		**(1,442)**	(1,545)
Selling and marketing expenses	16C	**(2,152)**	(1,932)
General and administrative expenses	16D	**(3,863)**	(3,864)
Other income (expenses), net	16E	**(245)**	57
Operating profit		**16,401**	17,208
Finance income	16F	**2,023**	450
Finance expenses	16F	**(142)**	(250)
Finance income, net		**1,881**	200
Share of profits of equity accounted investee		**218**	481
Profit before taxes on income		**18,500**	17,889
Taxes on income	13F	**(3,234)**	(3,972)
Net Profit		**15,266**	13,917
Other comprehensive income (loss) items that will not be transferred to profit and loss			
Remeasurement of defined benefit plan	12B	**27**	226
Share of other comprehensive loss of equity accounted investee		**(6)**	(28)
Total other comprehensive income, net of tax		**21**	198
Total comprehensive income		**15,287**	14,115
Earnings per share			
Basic and diluted earnings per share (in $)	18	**0.86**	0.79

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital		Share premium	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands
Balance at January 1, 2022	17,670,775	4,836	8,993	48,496	62,325
Net Profit	-	-	-	13,917	13,917
Other comprehensive income	-	-	-	198	198
Total comprehensive income	-	-	-	14,115	14,115
Transaction with owners, recognized directly in equity					
Dividend to owners	-	-	-	(8,023)	(8,023)
Balance at December 31, 2022	17,670,775	4,836	8,993	54,588	68,417
Net Profit	-	-	-	**15,266**	**15,266**
Other comprehensive income	-	-	-	**21**	**21**
Total comprehensive income	**-**	**-**	**-**	**15,287**	**15,287**
Transaction with owners, recognized directly in equity					
Dividend to owners	-	-	-	**(8,482)**	**(8,482)**
Balance at December 31, 2023	**17,670,775**	**4,836**	**8,993**	**61,393**	**75,222**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Year ended December 31,	
		2023	2022
	Note	$ thousands	$ thousands
Operating activities			
Net Profit		**15,266**	13,917
Adjustments:			
Depreciation	9	**828**	879
Taxes on income	13F	**3,234**	3,972
Share of profits of equity accounted investee	8	**(218)**	(481)
Loss (gain) on sale of property, plant and equipment, net	16E	**145**	(57)
Impairment loss of an option in an equity accounted investee	8,16E	**100**	-
Finance income, net	16F	**(1,779)**	(18)
		17,576	18,212
Decrease (increase) in trade accounts receivable	5	**828**	(457)
Decrease (increase) in other accounts receivable	6	**(541)**	971
Decrease (increase) in inventory	7	**587**	(747)
Increase (decrease) in trade payables		**2,275**	(2,703)
Increase (decrease) in other payables	10	**(64)**	68
Change in employee benefits	12	**(63)**	(130)
		20,598	15,214
Interest received	16F	**1,181**	276
Interest paid	16F	**(23)**	(17)
Income taxes paid, net	13	**(2,552)**	(3,839)
Cash flows generated from operating activities		**19,204**	11,634
Investing activities			
Investments in deposits, net	4	**(2,321)**	(4,785)
Acquisition of other investment	8	**-**	(900)
Dividend received from an equity accounted investee	8	**128**	-
Acquisition of property, plant and equipment	9	**(536)**	(993)
Investments in marketable securities	4	**(57)**	-
Proceeds from sale of property, plant and equipment	9, 16E	**14**	115
Proceeds from sale of marketable securities	4	**136**	154
Cash flows used for investing activities		**(2,636)**	(6,409)
Financing activities			
Dividend paid	15B	**(8,482)**	(8,023)
Cash flows used for financing activities		**(8,482)**	(8,023)
Net increase (decrease) in cash and cash equivalents		**8,086**	(2,798)
Cash and cash equivalents at beginning of the year		**19,003**	22,146
Effect of exchange rate fluctuations on cash and cash equivalents		**(168)**	(345)
Cash and cash equivalents at end of the year		**26,921**	19,003

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

NOTES TO 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, 2023, comprise the Company and its subsidiaries (together referred to as the "Group").

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

B. Definitions:

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

NOTE 2: - ACCOUNTING POLICIES

The following accounting policies have been applied consistently in the financial statements for all periods presented, unless otherwise stated.

A. Basis of presentation of the financial statements

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and its interpretations adopted by the International Accounting Standards Board ("IASB").
The Group's financial statements have been prepared on a cost basis, except for: financial assets and liabilities which are presented at fair value through profit or loss, provisions, employee benefit assets and liabilities and investment in equity accounted investee.

NOTE 2: - ACCOUNTING POLICIES (Cont.)

The Group has elected to present the profit or loss items using the function of expense method. The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 27, 2024.

B. Functional currency and presentation currency

The functional currency of the Group is the USD and it represents the primary economic environment in which the Group operates. The presentation currency of the financial statements is the USD.

C. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises costs of purchase and costs incurred in bringing the inventories to their present location and condition. The Group periodically evaluates the condition and age of inventories and makes provisions for slow moving inventories accordingly.

Cost of inventories is determined as follows:

Starting January 1, 2023
Raw materials - at cost of purchase on the basis of weighted average
Work in progress and finished goods - on the basis of average costs including materials, labor and other direct and indirect manufacturing costs
Purchased merchandise and products - at cost of purchase on the basis of weighted average

Before January 1, 2023
Raw materials - at cost of purchase on the basis of "first-in, first-out"
Work in progress and finished goods - on the basis of costs including materials, labor and other direct and indirect manufacturing costs
Purchased merchandise and products - at cost of purchase on the basis of "first-in, first-out" method

The change in measurement method described above did not have a material impact on the inventory balance as of January 1, 2023.

D. Property, plant and equipment

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the assets, as follows:

	%	
Buildings (except land component)	2-15	(mainly 2%)
Land under finance lease	1.5	
Machinery and equipment	15-33	(mainly 15%)
Motor vehicles	15	
Office equipment	7-33	(mainly 7%)
Computers	33	

NOTE 2: - ACCOUNTING POLICIES (Cont.)

E. Property, plant and equipment

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of the assets, as follows:

	%	
Buildings (except land component)	2-15	(mainly 2%)
Land under finance lease	1.5	
Machinery and equipment	15-33	(mainly 15%)
Motor vehicles	15	
Office equipment	7-33	(mainly 7%)
Computers	33	

F. 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 describes a 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.

NOTE 2: - ACCOUNTING POLICIES (Cont.)

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.

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.

G. Initial application of new financial reporting and accounting standards and amendments to existing financial reporting and accounting standards

Amendment to IAS 1, "Presentation of Financial Statements":

In February 2021, the IASB issued an amendment to IAS 1, *"Presentation of Financial Statements"* ("the Amendment"), which replaces the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies.

According to the amendment, information about accounting policy is material if, when taken into account together with other information provided in the financial statements, it can reasonably be expected to influence the decisions that users of financial statements make based on those reports.

The amendment to IAS 1 also clarifies that information about accounting policy may be material if, without it, users of financial statements may be prevented from understanding other material information in the financial statements. In addition, the amendment clarifies that there is no need to disclose information about accounting policy that is not material.

NOTE 2: - ACCOUNTING POLICIES (Cont.)

The Amendment is applicable for annual periods beginning on January 1, 2023.

The application of the above Amendment had an effect on the disclosures of the Group's accounting policies, but did not affect the measurement, recognition or presentation of any items in the Group's consolidated financial statements.

NOTE 3: - CASH AND CASH EQUIVALENTS

	December 31,	
	2023	2022
	$ thousands	$ thousands
Cash for immediate withdrawal	**23,900**	14,296
Cash equivalents - short-term deposits	**3,021**	4,707
	26,921	19,003

The Group’s exposure to currency risk and sensitivity analysis concerning cash and cash equivalents is disclosed in Note 11 on financial instruments.

NOTE 4: - SHORT-TERM DEPOSITS AND MARTKETABLE SECURITIES

	December 31,	
	2023	2022
	$ thousands	$ thousands
Bank deposits (*)	**28,517**	25,475
Marketable securities:		
Shares	**329**	274
Mutual funds	**419**	485
	748	759
	29,265	26,234

(*) Include short-term deposits, mainly in dollars, bearing interest at an average annual rate of approximately 6% (December 31, 2022: 4.19%).

The Group’s exposure to currency risk concerning deposits and marketable securities is disclosed in Note 11 on financial instruments.

NOTE 5: - TRADE ACCOUNTS RECEIVABLE

A. Trade accounts receivable, net:

	December 31, 2023	December 31, 2022
	$ thousands	$ thousands
Trade receivables	**9,546**	10,374
Less provision for doubtful debts	**-**	-
Trade accounts receivable, net	**9,546**	10,374

As at December 31, 2023, and 2022, there is no provision for expected credit losses as there are no amounts that are significantly past due.

B. Following is information about the credit risk exposure of the Group's trade accounts receivable:

December 31, 2023:

	Not past due	Past due < 30 days	Past due 31- 120 days	Past due > 120 days	Total
	$ thousands				
Gross carrying amount	**7,642**	**1,442**	**462**	**-**	**9,546**
Allowance for ECLs	**-**	**-**	**-**	**-**	**-**

December 31, 2022:

	Not past due	Past due < 30 days	Past due 31- 120 days	Past due > 120 days	Total
	$ thousands				
Gross carrying amount	6,915	3,050	382	27	10,374
Allowance for ECLs	-	-	-	-	-

NOTE 6: - OTHER ACCOUNTS RECEIVABLE

	December 31,	
	2023	2022
	$ thousands	$ thousands
Contract assets	**2,204**	1,293
Government institutions	**130**	47
Current tax assets	**8**	-
Related parties	**-**	82
Prepaid expenses	**290**	213
Other receivables	**172**	620
	2,804	2,255

The Group's exposure to currency risk concerning other accounts receivable is disclosed in Note 11 on financial instruments.

NOTE 7: - INVENTORY

	December 31,	
	2023	2022
	$ thousands	$ thousands
Raw and packing material	**2,575**	3,076
Work-in-process	**754**	785
Finished products	**603**	658
	3,932	4,519

NOTE 8: - INVESTMENTS IN INVESTEES AND OTHER

A. **Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2023:**

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

2. **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 8: - INVESTMENTS IN INVESTEES AND OTHER (Cont.)

B. 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 option expired in 2023 without exercise. As a result, as at December 31, 2023, the Company recognized an impairment loss in the amount of USD 100 thousand that is recorded in profit or loss under other expenses, net (see Note 16E, hereinafter).
The fair value of the option estimated at USD 100 thousand as at December 31, 2022, was presented under “Investment in Equity Accounted Investee”.

During 2023 PCT decided to pay the shareholders a dividend at the amount of USD 640 thousand, of which the Company received an amount of USD 128 thousand.

C. Other Investment

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

NOTE 9: - PROPERTY, PLANT AND EQUIPMENT

A. Composition and movement

Year 2023:

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Land and Buildings	Total
			$ thousands		
Cost					
Balance as of January 1, 2023	**4,679**	**703**	**1,845**	**12,131**	**19,358**
Acquisitions	**170**	**68**	**258**	**9**	**505**
Disposals	**(342)**	**(58)**	**(1)**	**-**	**(401)**
Balance as of December 31, 2023	**4,507**	**713**	**2,102**	**12,140**	**19,462**
Accumulated depreciation					
Balance as of January 1, 2023	**3,480**	**184**	**1,351**	**4,031**	**9,046**
Depreciation for the year	**308**	**102**	**132**	**286**	**828**
Disposals	**(189)**	**(52)**	**(1)**	**-**	**(242)**
Balance as of December 31, 2023	**3,599**	**234**	**1,482**	**4,317**	**9,632**
Carrying amounts as of December 31, 2023	**908**	**479**	**620**	**7,823**	**9,830**

Year 2022:

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

NOTE 9: - PROPERTY, PLANT AND EQUIPMENT (Cont.)

B. Details on land rights used as property, plant and equipment by the Group

The land on which the Company's premises in Israel are built, has a carrying amount of USD 1,183 thousand as at December 31, 2023 (December 31, 2022: USD 1,204 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.

C. Acquisition of property, plant and equipment on credit

As at December 31, 2023, the Group acquired property, plant and equipment on credit in the amount of USD 18 thousand (December 31, 2022: USD 49 thousand). As of the date of signing these financial statements, this amount has been paid.

D. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2023 the original cost of such assets is USD 4,561 thousand (December 31, 2022: USD 3,816 thousand).

NOTE 10: - OTHER PAYABLES

	December 31,	
	2023	2022
	$ thousands	$ thousands
Employees and related benefits	**789**	860
Government institutions	**46**	-
Other payables and accrued expenses	**1,204**	1,243
	2,039	2,103

The Group's exposure to currency and liquidity risks concerning other payables is disclosed in Note 11 on financial instruments.

NOTE 11: - FINANCIAL INSTRUMENTS

A. Fair value

Management believes that the carrying amount of cash and cash equivalents, short-term deposits, trade accounts receivable, other accounts receivable, trade payables and other payables approximate their fair value.
Financial assets presented in the Statement of Financial Position at fair value are measured according to quoted market prices in an active market (Level 1).

B. Financial risk management objectives and policies:

The Group's principal financial assets include cash and cash equivalents, short-term deposits and receivables that derive directly from its operations. The Group's principal financial liabilities are comprised payables. The Group also holds investments available-for-sale.

The Group is exposed to market risk, credit risk and liquidity risk. The Board of Directors has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Board of Directors defines principles for overall risk management, as well as the specific policy for certain risk exposures and also the use of financial instruments and excess liquidity investments. The Group's risk management framework focuses on actions to minimize possible negative effects on the Group's financial performance.

1. Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises currency 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.

2. Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in foreign currency exchange rates.

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 Group 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 11: - FINANCIAL INSTRUMENTS (Cont.)

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

	December 31, 2023					
	Dollar	NIS	Euro	GBP	Other	Total
	$ thousands					
Current financial assets:						
Cash and cash equivalents	**26,347**	**107**	**58**	**403**	**6**	**26,921**
Deposits and Marketable securities	**25,188**	**4,077**	**-**	**-**	**-**	**29,265**
Trade and other receivables	**11,068**	**313**	**15**	**356**	**-**	**11,752**
Current financial liabilities:						
Trade payables	**(3,139)**	**(400)**	**(20)**	**(104)**	**-**	**(3,663)**
Other payables	**(1,006)**	**(174)**	**(17)**	**-**	**(7)**	**(1,204)**
	58,458	**3,923**	**36**	**655**	**(1)**	**63,071**

	December 31, 2022					
	Dollar	NIS	Euro	GBP	Other	Total
	$ thousands					
Current financial assets:						
Cash and cash equivalents	14,673	3,814	346	163	7	19,003
Deposits and Marketable securities	25,233	1,001	-	-	-	26,234
Trade and other receivables	10,944	392	201	215	-	11,752
Current financial liabilities:						
Trade payables	(940)	(424)	(14)	(41)	-	(1,419)
Other payables	(983)	(206)	(47)	-	(7)	(1,243)
	48,927	4,577	486	337	-	54,327

Information regarding significant exchange rates:

	1 US Dollar					
	December 31	Rate of change	December 31	Rate of change	December 31	Rate of change
	NIS	%	Euro	%	GBP	%
2023	**3.627**	**3.07**	**0.904**	**(3.62)**	**0.785**	**(5.42)**
2022	3.519	13.15	0.938	6.23	0.830	12.16
2021	3.110	(3.27)	0.883	8.34	0.740	1.09

NOTE 11: - FINANCIAL INSTRUMENTS (Cont.)

Foreign currency sensitivity analysis:

The following table demonstrates the sensitivity test to a reasonably possible change in NIS, Euro and GBP exchange rates, with all other variables held constant. The impact on the Group's income before tax is due to changes in the fair value of monetary assets and liabilities. The Group's exposure to foreign currency changes for all other currencies is immaterial.

	Profit or loss	
	December 31,	
	2023	2022
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	**196**	229
5% in the Euro	**2**	24
5% in the GBP	**33**	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.

3. Credit risk

Credit risk is the risk that a counterparty will not meet its obligations as a customer or under a financial instrument leading to a loss to the Group. The Group is exposed to credit risk from its operating activity (primarily trade accounts receivable) and from its financing activity, including deposits with banks.

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.

NOTE 11: - FINANCIAL INSTRUMENTS (Cont.)

4. 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:

	December 31, 2023	
	6 months or less	Total
	$ thousands	$ thousands
Trade payables	**3,663**	**3,663**
Other payables	**1,204**	**1,204**
	4,867	**4,867**

	December 31, 2022	
	6 months or less	Total
	$ thousands	$ thousands
Trade payables	1,419	1,419
Other payables	1,243	1,243
	2,662	2,662

NOTE 12: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES

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

A. Short-term employee benefits

	December 31,	
	2023	2022
	$ thousands	$ thousands
Presented under current liabilities:		
Provision for vacation and recreation	**493**	557

NOTE 12: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

B. Post-employment benefits

According to the labor laws and Severance Pay Law in Israel, the Company is required to pay compensation to an employee upon dismissal or retirement or to make current contributions in defined contribution plans pursuant to section 14 to the Severance Pay Law, as specified below. The Group's liability is accounted for as a post-employment benefit. The computation of the Group's employee benefit liability is made according to the current employment contract based on the employee's salary and employment term which establish the entitlement to receive the compensation.

1. Defined contribution plans

Section 14 to the Severance Pay Law, 1963 applies to part of the compensation payments, pursuant to which the fixed contributions paid by the Group into pension funds and/or policies of insurance companies release the Group from any additional liability to employees for whom said contributions were made. These contributions and contributions for benefits represent defined contribution plans.

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Expenses in respect of defined contribution plans	**481**	495

2. Defined benefit plans

The Group accounts for that part of the payment of compensation that is not covered by contributions in defined contribution plans, as above, as a defined benefit plan for which an employee benefit liability is recognized and for which the Group deposits amounts in severance pay funds and in qualifying insurance policies. Net liability for defined benefit plan is presented under non-current liabilities.

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 D hereinafter.

	December 31,	
	2023	2022
	$ thousands	$ thousands
Present value of defined benefit obligation	**2,008**	1,944
Fair value of plan assets	**1,627**	1,530
Net recognized liability for defined benefit obligations	**381**	414

NOTE 12: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

A. Changes in the defined benefit obligation

	2023	2022
	$ thousands	$ thousands
Defined benefit obligations as at January 1	**1,944**	2,478
Expenses recognized in profit or loss:		
Current service costs	**75**	96
Past service cost	**16**	28
Interest costs	**72**	42
Loss (gain) from remeasurement in other comprehensive income:		
Actuarial gain arising from changes in financial assumptions	**(36)**	(363)
Return on plan assets (excluding amounts included in net interest expenses)	**1**	(5)
Other actuarial loss	**21**	11
Changes in respect of foreign exchange differences	**12**	31
Other adjustments:		
Benefits paid	**(29)**	(67)
Changes in respect of foreign exchange differences	**(68)**	(307)
Defined benefit obligation as at December 31	**2,008**	1,944

B. Changes in the fair value of plan assets

Plan assets comprise assets held by a long-term employee benefit fund or qualifying insurance policies.

	2023	2022
	$ thousands	$ thousands
Fair value of plan assets as at January 1	**1,530**	1,747
Income recognized in profit or loss:		
Interest income	**35**	30
Gain (loss) from remeasurement in other comprehensive income:		
Return on plan assets (excluding amounts included in net interest expenses)	**37**	(18)
Other actuarial loss	**(5)**	(31)
Changes in respect of foreign exchange differences	**-**	2
Other adjustments:		
Contributions by employer	**-**	(65)
Benefits paid	**74**	70
Changes in respect of foreign exchange differences	**(44)**	(205)
Defined benefit obligation as at December 31	**1,627**	1,530

NOTE 12: - EMPLOYEE BENEFIT ASSETS AND LIABILITIES (Cont.)

C. The principal assumptions underlying the defined benefit plan

	2023	2022
	%	%
Discount rate (*)	**3.11**	2.69
Expected rate of salary increase	**3**	3

(*) 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.

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

D. Sensitivity analysis

Below are reasonably possible changes at the end of the reporting period in each actuarial assumption assuming that all other actuarial assumptions are constant:

	Change in defined benefit obligation
	$ thousands
December 31, 2023:	
Sensitivity test for changes in the expected rate of salary increase	
The change as a result of:	
Salary increase of 1%	**94**
Salary decrease of 1%	**(65)**
Sensitivity test for changes in the discount rate of the plan assets and liability	
The change as a result of:	
Increase of 1% in discount rate	**(64)**
Decrease of 1% in discount rate	**89**

E. Effects of the Group's defined benefit plan on its future expected cash flows

The expected contributions to the plan in 2024 are USD 76 thousand.
The average weighted life of the plan as of December 31, 2023 is 8.06 years (as of December 31, 2022: 8.74 years).

NOTE 13: - TAXES ON INCOME

A. Tax laws applicable to the Group's companies

1. 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").

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

   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 applies 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. As stated in Note 1, the Company's factory is not located in Development Area A, and therefore the Company's tax rate on preferred income is 16%.

   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 13: - TAXES ON INCOME (Cont.)

The reduced corporate tax rate will be determined according to the rate of exempt profits the company chooses to release from its entire exempt profits, and will be between 40% and 70% of the corporate tax rate that would have applied to the revenue in the year it was produced if it had not been exempt, but in any event no less than 6%.

Furthermore, a company that chooses to release its exempt profits and pay a beneficiary corporate tax rate will be required to invest in its enterprise, within a period of 5 years beginning from the tax year it elected, an amount calculated according to a formula provided in the temporary order (30% of the exempt income multiplied by the corporate tax rate and multiplied by the release rate). The investment will be made in productive assets (with the exclusion of buildings), research and development in Israel and salaries to new employees of the enterprise. Failure to comply with this condition will require the company to pay additional corporate tax.

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

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

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.

B. Tax rates applicable to the Group

1. The Israeli corporate income tax rate was 23% in 2023 and 2022.

   Current taxes for the reported periods and deferred tax balances as at December 31, 2023 and 2022 are calculated according to the tax rate presented above. See also Note 13A(2) above.

2. The principal tax rates applicable to the subsidiaries whose place of incorporation is abroad are:
   A. A company incorporated in the U.S - Payton America is subject to the tax rate of its country of domicile. The primary tax rates applicable to the subsidiary are 21% Federal Tax and 5.5% State Tax.
   B. A company incorporated in the UK - Himag Planar is subject to the tax rate of its country of domicile. The primary tax rate applicable to the subsidiary is 19%.

NOTE 13: - TAXES ON INCOME (Cont.)

C. Final tax assessments

The Company has final tax assessments up to and including the 2017 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 2020.

D. Deferred tax assets and liabilities

Composition:

	Statements of financial position		Statements of profit or loss	
	December 31,		Year ended December 31,	
	2023	**2022**	**2023**	**2022**
	$ thousands			
Deferred tax liabilities:				
Property, plant and equipment	**(1,121)**	(1,183)	**62**	(28)
Investment in investees	**(104)**	(56)	**(50)**	(50)
Others	**(246)**	(153)	**(93)**	83
	(1,471)	(1,392)		
Deferred tax assets:				
Employee benefits	**160**	178	**(11)**	(25)
	160	178		
Deferred tax expenses			**(92)**	(20)
Deferred tax assets liabilities, net	**(1,311)**	(1,214)		

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.

As at December 31, 2023 a deferred tax liability in the amount of USD 786 thousand (2022: USD 696 thousand) for temporary differences in the amount of USD 3,419 thousand (2022: USD 3,027 thousand) related to investment in a subsidiaries was not recognized because the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

As at December 31, 2023 deferred tax assets have not been recognized mainly in respect of capital tax losses in the amount of USD 722 thousand (year ended December 31, 2022: USD USD 585 thousand, respectively) since currently it is not probable that future taxable profit will be available, against which the Group can utilize the benefits.

As at December 31, 2022 deferred tax assets have not been recognized mainly in respect of tax losses in the amount of USD 203 thousand since their utilization was not probable.

NOTE 13: - TAXES ON INCOME (Cont.)

E. Taxes on income relating to items recorded in other comprehensive income

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Actuarial gain from defined benefit plans	**(7)**	(53)
Company's share of the other comprehensive loss of equity accounted investee	**2**	-
	(5)	(53)

F. Taxes on income included in profit or loss

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Current taxes	**3,142**	3,033
Deferred taxes (see also D above)	**92**	20
Taxes in respect of previous years	**-**	919
	3,234	3,972

NOTE 13: - TAXES ON INCOME (Cont.)

G. Theoretical tax

The reconciliation between the tax expense, assuming that all the income, expenses, gains and losses in profit or loss were taxed at the statutory tax rate and the taxes on income recorded in profit or loss is as follows:

	Year ended December 31,	
	2023	**2022**
	$ thousands	**$ thousands**
Profit before taxes on income	**18,500**	17,889
Statutory tax rate	**23%**	23%
Tax computed at the statutory tax rate	**4,255**	4,114
Increase (decrease) in taxes on income resulting from the following:		
Tax benefit arising from preferred income tax rates by virtue of the Encouragement Law	**(1,004)**	(931)
Non-deductible expenses and tax-exempt income, net	**64**	19
Group's share of losses of equity accounted investee	**-**	(61)
Tax saving in respect of foreign subsidiaries	**(79)**	(36)
Taxes in respect of previous years	**-**	919
Others	**(2)**	(52)
	3,234	3,972

NOTE 14: - COMMITMENTS

A. According to a Management Services Agreement signed between the Company and Wichita Ltd., a management company under the full control of Mr. David Yativ (approved by the Company's General meeting dated September 20, 2023), 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, 2023. 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 April 15, 2023) 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.

NOTE 14: - COMMITMENTS (Cont.)

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 20, 2023), 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, 2023. 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 April 15, 2023) which shall be raised by 3% in April each year, and an annual bonus calculated as 2% of the Company’s annual profit before taxes on income and before any other profit based bonus.

NOTE 15: - EQUITY

A. Share capital - Composition

	Number of shares	
	Authorized	Issued and paid
	December 31, 2023 and 2022	
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.

B. Dividends

The following dividends were paid by the Company:

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
USD 0.480 per ordinary share	**8,482**	-
USD 0.454 per ordinary share	**-**	8,023

After the reporting date, on January 24, 2024, the Company declared a dividend for the financial year 2023 in the amount of USD 10,072 thousand (paid on March 5, 2024). This amount was not recognized as distribution to the owners in the period and no liability was recorded in its respect. The dividend per share is USD 0.57 (See Note 20).

NOTE 16: - ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS

A. Additional information on revenues

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Export	**53,567**	59,029
Israel	**1,289**	1,241
	54,856	60,270

Revenues from principal customers which each accounts for 10% or more of total revenues reported in the financial statements:

	Year ended December 31,	
	2023	2022
	%	%
Customer A	**15**	29
Customer B	**16**	17
Customer C	**14**	*

* Less than 10% of the sales of the Group

Geographical information

Segment revenue based on the geographical location of customers:

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Israel	**2,200**	3,392
Europe	**11,652**	10,146
America	**10,772**	9,914
Asia	**30,232**	36,818
	54,856	60,270

:

NOTE 16: - ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

B. Cost of sales

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Materials consumed*	**23,616**	28,646
Salaries and related benefits	**5,272**	5,560
Depreciation	**543**	541
Other manufacturing expenses	**1,236**	1,462
Change in inventory of finished products and work in process	**86**	(431)
	30,753	35,778

* Includes inventory write-off of USD 142 thousand and USD 218 thousand for the years ended December 31, 2023 and 2022, respectively.

C. Selling and marketing expenses

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Salaries and related benefits**	**975**	973
Sales commissions	**777**	689
Advertising and marketing	**70**	52
Exhibits and travel abroad	**173**	141
Other	**157**	77
	2,152	1,932

** Includes expenses related to related parties in the amount of USD 435 thousand for each of the years ended December 31, 2023 and 2022 (see Note 17C).

NOTE 16: - ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

D. General and administrative expenses

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Salaries and related benefits	**1,230**	1,255
Maintenance and communications	**316**	271
Depreciation	**285**	338
Professional services	**295**	294
Management fees and related benefits to related parties (see note 17)	**1,134**	1,104
Other	**603**	602
	3,863	3,864

E. Other income (expenses), net

	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Capital gain (loss) on sale of property, plant and equipment, net	**(145)**	57
Impairment loss of an option in an equity accounted investee (see note 8B)	**(100)**	-
	(245)	57

NOTE 16: - ADDITIONAL INFORMATION TO PROFIT OR LOSS ITEMS (Cont.)

F. Finance income (expenses)

	Year ended December 31, 2023	Year ended December 31, 2022
	$ thousands	$ thousands
Finance income		
Interest income from bank deposits and cash	**1,947**	447
Income from marketable securities, net	**76**	-
Other	**-**	3
	2,023	450
Finance expenses		
Bank charges and others	**33**	35
Interest for delayed tax payments	**23**	17
Net loss from marketable securities	**-**	76
Net loss from change in exchange rates	**77**	122
Other	**9**	-
	142	250

NOTE 17: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES

A. Balances with key management personnel and interested and related parties

December 31, 2023

	Equity accounted investee	The Parent Company	Key management personnel employed by the Group	Key management personnel not employed by the Group	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Payables:					
Short-term employment benefits	**-**	**-**	**99**	**-**	**-**
Post-employment benefits	**-**	**-**	**27**	**-**	**-**
Trade payables	**152**	**-**	**-**	**-**	**-**
Other payables	**-**	**-**	**-**	**723**	**9**

NOTE 17: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

December 31, 2022

	Equity accounted investee	The Parent Company	Key management personnel employed by the Group	Key management personnel not employed by the Group	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Receivables:					
Other accounts receivable	287	82	-	-	-
Payables:					
Short-term employment benefits	-	-	109	-	-
Post-employment benefits	-	-	33	-	-
Trade payables	125	-	-	-	-
Other payables	-	-	-	706	12

B. Transactions with related parties

	Equity accounted investee	
	Year ended December 31,	
	2023	2022
	$ thousands	$ thousands
Purchases	**9,504**	14,857

C. Compensation to key management personnel and interested parties

For the year ended December 31, 2023

	Key management personnel employed by the Group	Key management personnel not employed by the Group (*)	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands
Short-term employee benefits	**510**	**-**	**-**
Post-employment benefits	**51**	**-**	**-**
Other	**-**	**1,604**	**38**
Total	**561**	**1,604**	**38**
Number of people	**3**	**2**	**3**

NOTE 17: - BALANCES AND TRANSACTIONS WITH INTERESTED AND RELATED PARTIES (Cont.)

For the year ended December 31, 2022

	Key management personnel employed by the Group	Key management personnel not employed by the Group (*)	Directors not employed by the Group
	$ thousands	$ thousands	$ thousands
Short-term employee benefits	500	-	-
Post-employment benefits	(48)	-	-
Other	-	1,571	39
Total	452	1,571	39
Number of people	5	2	3

(*) Management fees and related benefits to Wichita Ltd. (see Note 14A) and to Yaarh-Looking To The Future Ltd. (see Note 14B) include an amount of USD 184 thousand and an amount of USD 251 thousand, respectively, for each of the years ended December 2023, and 2022, 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.

D. Commitments

Regarding agreements with related parties and shareholders - see Note 14A and 14B.

NOTE 18: - NET EARNINGS PER SHARE

Details of the number of shares and income used in the computation of net earnings per share:

	Year ended December 31,	
	2023	**2022**
Net profit attributable to equity holders of the Company ($ thousands)	**15,266**	13,917
Weighted number of shares (*)	**17,671**	17,671
Basic and diluted earnings per ordinary share (in US$)	**0.86**	0.79

(*) The Company has no dilutive instruments. Data relates to the computation of basic and dilutive earnings per share.

NOTE 19: - OPERATING SEGMENTS

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.

Geographical information

Non-current assets (property, plant and equipment and intangible assets) are based on the geographical location of the assets:

	December 31,	
	2023	**2022**
	$ thousands	**$ thousands**
Israel	**8,646**	9,052
Europe	**561**	690
America	**645**	592
	9,852	10,334

NOTE 20: - EVENTS AFTER THE REPORTING DATE

A. On January 24, 2024, the Company's Board of Directors decided to pay the shareholders a dividend for the financial year 2023 in the amount of USD 10,072 thousand.
The dividend per share is USD 0.57, paid on March 5, 2024.

B. On February 14, 2024, the Parent Company, Payton Industries Ltd, entered into an agreement with FIMI ISRAEL OPPORTUNITY 7, a Limited Partnership, and FIMI Opportunity 7, LP a Limited Partnership (together hereinafter: "FIMI"), to allocate 1,468,057 ordinary shares of the Parent Company (hereinafter: "Allocated Shares") which, subject to their allocation, shall constitute approximately 17.76% of the Parent Company's issued and outstanding share capital and voting rights (hereinafter: the "Share Purchase Agreement"), all conditional upon the occurrence of certain conditions.

Simultaneously Mr. David Yativ, the controlling shareholder of the Parent Company (hereinafter: "Yativ") has entered into an agreement to sell to FIMI 1,000,000 shares of the Parent Company, constituting around 12.09% of the Parent Company's share capital. Furthermore, FIMI and Yativ agreed on the terms of a shareholders' rights agreement that will be executed on the closing of the transaction.

It is hereby clarified that the completion of the Share Purchase Agreement and the other transactions described above (hereinafter: "the FIMI Transaction") are subject, inter alia, to the approval of the Parent Company's Shareholders' meeting, to be held on April 8, 2024.

C. On February 28, 2024 the Parent Company's board of directors has decided to grant certain employees of the Company with options to purchase shares of the Parent Company, according to the Parent Company's incentive option plan and subject to the completion of the FIMI Transaction and to the approval of the updated remuneration policy by the Company Shareholders' meeting.

Among the above-mentioned employees: Mr. Doron Yativ (David Yativ's son, serves as director and the CEO of the Company) and Mr. Amir Yativ (David Yativ's son, serves as an engineering and development manager) who will be granted with 30,000 and 20,000, respectively, non-marketable options of the Parent Company.

D. On March 7, 2024, the Company's remuneration committee and the Board of Directors have examined the updated remuneration policy, found it fair, logic and appropriate and decided to approve it. In addition the above mentioned quorums approved the Company's participation in the service fee of FIMI for the consulting services to be provided to Payton Group as part of the FIMI Transaction, for a period of 3 years, for a monthly payment of NIS 40 thousands to be shared equally between the Company and the Parent Company (the participation amount shall be examined and adjusted on a yearly basis according to the actual services). The above resolutions are subject to the approval of the Company's shareholders' meeting, to be held on April 15, 2024.