

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington D.C. 20549

FORM 20-F

For the fiscal year ended December 31, 2021

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2021

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report.....

Commission file number 0-28884

ELTEK LTD.

(Exact name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

20 Ben Zion Gelis Street, Sgoola Industrial Zone, Petach Tikva 4927920, Israel

(Address of principal executive offices)

Ron Freund, +972-3-9395025 (phone), +972-3- 9342584 (fax)

20 Ben Zion Gelis Street, Sgoola Industrial Zone, Petach Tikva 4927920, Israel

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Ordinary Shares, NIS 3.00 Nominal Value	ELTK	NASDAQ Capital Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to section 15(d) of the act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

5,840,357 Ordinary Shares, nominal value NIS 3.00 per share (as of December 31, 2021)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act:

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934:

Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Emerging growth company

Accelerated filer
Non-accelerated filer

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards[†] provided pursuant to Section 13(a) of the Exchange Act.

[†] The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting
Standards as issued by the International
Accounting Standards Board

Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

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Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act):

Yes No

INTRODUCTION

We manufacture, market and sell technologically advanced custom made printed circuit boards, or PCBs, including high density interconnect, or HDI, flex-rigid and rigid, with high layer count boards. Our principal customers include manufacturers of defense and aerospace, medical, industrial, telecom and networking equipment, as well as contract electronic manufacturers. We were incorporated in 1970 under the laws of the State of Israel. Since our initial public offering in January 1997, our ordinary shares have been listed on the NASDAQ Stock Market (symbol: ELTK) and are presently traded on the NASDAQ Capital Market. As used in this annual report, the terms “we,” “us” and “our” mean Eltek Ltd. and its subsidiaries, unless otherwise indicated.

Our functional currency is the New Israeli Shekel while our reporting currency is the U.S. dollar. All references in this annual report to “dollars” or “\$” are to U.S. dollars and all references in this annual report to “NIS” are to New Israeli Shekels. Our consolidated financial statements appearing in this annual report are prepared in accordance with U.S. GAAP. The consolidated financial statements appearing in this annual report are translated into dollars at the representative rate of exchange under the current rate method. Under such method, the income statement and cash flows statement items for each year (or period) stated in this report are translated into dollars using the average exchange rates in effect at each period presented, and assets and liabilities for each year (or period) are translated using the exchange rate as of the balance sheet date as published by the Bank of Israel (\$1.00 = NIS 3.11 as of December 31, 2021), except for equity accounts, which are translated using the rates in effect at the date of the transactions. All resulting exchange differences that do not affect our earnings are reported in the accumulated other comprehensive income as a separate component of shareholders’ equity.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

Except for the historical information contained in this annual report, the statements contained in this annual report are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the Private Securities Litigation Reform Act of 1995, as amended, with respect to our business, financial condition and results of operations. Such forward-looking statements reflect our current view with respect to future events and financial results. We urge you to consider that statements which use the terms “anticipate,” “believe,” “do not believe,” “expect,” “plan,” “intend,” “estimate” and similar expressions are intended to identify forward-looking statements. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. Except as required by applicable law, including the securities laws of the United States, we undertake no obligation to publicly release any update or revision to any forward-looking statements to reflect new information, future events or circumstances, or otherwise after the date hereof. We have attempted to identify significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section that appears in Item 3.D. “Key Information- Risk Factors.”

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

- A. Reserved
- B. Capitalization and Indebtedness
Not applicable.
- C. Reasons for the Offer and Use of Proceeds
Not applicable.
- D. Risk Factors

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. Our business, prospects, financial condition and results of operations could be adversely affected due to any of the following risks. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment. These risk factors include:

Risks Related to Our Business and Our Industry

- We have a history of operating losses and may not be able to achieve and sustain long term profitable operations. We may not have sufficient resources to fund our operations in the future.
 - We may require additional capital in the future, which may not be available to us.
 - The spread of novel strain of coronavirus, COVID-19, may adversely affect our business operations and financial condition.
 - We are dependent on one-of-a-kind machinery that may malfunction and may not be easily replaced.
 - Because competition in the PCB market is intense, our business, operating results and financial condition may be adversely affected.
 - Rapid changes in the Israeli and international electronics industries and recessionary pressures may adversely affect our business.
 - Our products and product components need to meet certain industry standards.
-

- Key customers account for a significant portion of our revenues. The loss of a key customer would have an adverse impact on our business results.
- We are dependent upon a select number of suppliers for timely delivery of key raw materials and the loss of one or more of these suppliers or delays in supply of these raw materials would adversely affect our manufacturing ability. If these suppliers delay or discontinue the manufacture or supply of these raw materials, we may experience delays in production and shipments, increased costs and cancellation of orders for our products.
- Our results of operations may be adversely affected by currency fluctuations.
- Unfavorable national and global economic conditions could adversely affect our business, operating results and financial condition.
- We are subject to environmental laws and regulations. Compliance with those laws and regulations requires us to incur costs and we are subject to fines or other sanctions for non-compliance.
- We have in the past been, and currently are, subject to claims and litigation relating to environmental matters. If we are found to be in violation of environmental laws, we could be liable for damages and costs of remediation and may be subject to a halt in production, which may adversely affect our business, operating results and financial condition.
- We may fail to be in compliance with financial covenants in our loan agreements.
- We may not succeed in our efforts to expand our activity in the U.S. and other foreign markets. If we are unsuccessful, our future revenues and profitability would be adversely affected.
- We may be subject to the requirements of the National Industrial Security Program Operating Manual for our facility security clearance, which is a prerequisite to our ability to work on classified contracts for the U.S. government.
- We may encounter difficulties with our international operations and sales that may have a material adverse effect on our sales and profitability.
- Compliance with the conditions of a new business permit issued to us in 2018, if required, may be costly. We may become subject to certain sanctions, including significant fines, criminal proceedings and in an unlikely event an order shutting down our factory.
- Damage to our manufacturing facilities due to fire, natural disaster, or other events could materially adversely affect our business, financial condition, and results of operations.
- Our quarterly operating results fluctuate significantly. Results of operations in any period should not be considered indicative of the results to be expected for any future period.
- Our products and related manufacturing processes are often highly complex and therefore we may be delayed in product shipments. Our products may at times contain manufacturing defects, which may subject us to product liability and warranty claims. Our operating margins may be affected as a result of price increases for our principal raw materials.
- Increasing scrutiny and changing expectations from investors, lenders, customers and other market participants with respect to our Environmental, Social and Governance policies may impose additional costs on us or expose us to additional risks.
- We compete with PCB manufacturers in Asia whose manufacturing costs are lower than ours.
- We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.
- We are required to comply with “conflict minerals” rules which impose costs on us, may make our supply chain more complex, and could adversely impact our business.
- Increased regulation associated with climate change and greenhouse gas emissions could impose significant additional costs on operations.
- Obstacles in our transition to a new enterprise resource planning system may adversely affect our business and results of operations and the effectiveness of our internal control over financial reporting.

- Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.
- Technological change may adversely affect the market acceptance of our products.
- The measures we take in order to protect our intellectual property may not be effective or sufficient.
- Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs.

Risks Related to Our Human Capital

- If our workforce will be represented by a labor union we could incur additional costs or experience work stoppages as a result of the renegotiation of our labor contracts.
- From time to time, we may be named as a defendant in actions involving the alleged violation of labor laws related to employment practices, wages and benefits.
- Under current Israeli law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.
- We depend on key personnel for the success of our business.
- Our ability to have access to insurance programs for *directors* and officers may be curtailed, which may adversely affect our ability to retain and attract directors and officers.

Risks Related to Our Ordinary Shares

- Our share price has been volatile in the past and may continue to be susceptible to significant market price and volume fluctuations in the future.
- The voting interest of Mr. Nissan, individually and through Nistec Golan, our controlling shareholder, may conflict with the interests of other shareholders.
- We may in the future be classified as a passive foreign investment company, or PFIC, which would subject our U.S. investors to adverse tax rules.
- We do not expect to distribute dividends in the foreseeable future.

Risks Related to Our Organization and Location in Israel

- Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.
- Our results of operations may be negatively affected by the obligation of our personnel to perform military reserve service.
- Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.
- Provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore impact the price of our shares.
- The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.
- The termination or reduction of tax and other incentives that the Israeli government provides to domestic companies may increase the costs involved in operating a company in Israel.

Risks Related to Our Business and Our Industry

We have a history of operating losses and may not be able to achieve and sustain long term profitable operations. We may not have sufficient resources to fund our operations in the future.

While we achieved net profits of \$5.0 million, \$2.6 million and \$1.8 million in the years ended December 31, 2021, 2020 and 2019, respectively, we have not maintained consistent profitable operations in the past. We have incurred an accumulated deficit of approximately \$12.1 million since inception. There can be no assurance that we will be able to operate profitably in the future. To the extent that we incur operating losses in the future, we may have insufficient working capital to fund our operations. If we do not generate sufficient cash from operations, we will be required to obtain additional financing or reduce our level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms favorable to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be materially and adversely affected.

We may require additional capital in the future, which may not be available to us.

As of December 31, 2021, we had \$9.3 million in cash and cash equivalents and working capital of \$13.3 million. The lack of sufficient working capital could negatively impact our ability to compete effectively in the future or to expand our production facilities. To the extent that we incur operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations and will be required to obtain additional financing. Our working capital requirements and cash flow provided by our operating and financing activities are likely to vary greatly from quarter to quarter, depending on the following factors: (i) the timing of orders and deliveries; (ii) net profit in the period; (iii) the purchase of new equipment; (iv) the build-up of inventories; (v) the payment terms offered to our customers; (vi) the payment terms offered by our suppliers; and (vii) ability to maintain our current, or obtain additional, lines of credit and long-term loans from banks and other lenders. The lack of sufficient working capital could negatively impact our ability to compete effectively in the future.

As of December 31, 2021, we had \$4.6 million of outstanding long-term loans from banks (including current maturities) and unutilized revolving lines of credit aggregating NIS 8.7 million (approximately \$2.8 million). As of December 31, 2021, we were in compliance with our banks' loan covenants. These credit facilities may not remain available to us in the future. Furthermore, under certain circumstances the banks may require us to accelerate or make immediate payment in full of our credit facilities. All of our assets are pledged as security for our liabilities to our banks, whose consents are required for any future pledge of such assets.

Epidemics and pandemics, such as the COVID-19 pandemic, could materially disrupt the company's business and have a negative impact on the company's financial results and financial condition

We are vulnerable to the general economic effects of epidemics, pandemics and other public health crises, such as the COVID-19 pandemic. Due to the recent outbreak of COVID-19, there has been a substantial curtailment of travel and business activities, which is causing significant disruptions to the global economy. The extent to which COVID-19 impacts our results will depend primarily on future developments, which are highly uncertain and cannot be predicted with confidence, including the severity and duration of the crisis, the speed and effectiveness of vaccine, our employees willingness to get vaccinated, and treatment developments and deployment, potential mutations of COVID-19, and the impact of actions taken and that will be taken to contain COVID-19 or treat its impact, among others. For example, if COVID-19 continues to spread, we may need to limit operations or implement additional restrictions as a result of widespread government restrictions.

Unlike other industries, as a manufacturer of physical products, we cannot rely on our main work force to be working from home. Israel and other countries have previously enforced quarantines and shutdowns to slow the spread of COVID-19, and restricted international travel during this pandemic. While prior government shutdowns did not have a significant impact on our business, a future government shutdown could result in the suspension of work in progress and delivery delays which would adversely affect our future revenue and cash flow.

We are continuing to closely monitor COVID-related impacts on all aspects of our business and geographies, including on our workforce, supply chain and customers. On September 9, 2021, President Biden announced a COVID-19 action plan, including an executive order, the Safer Workforce Task Force guidance issued on September 24, 2021 and the Force Health Protection guidance. This executive order and guidance (as amended) requires U.S. based federal contractors' employees to have had their final vaccination dose by January 4, 2022, with exceptions including where an employee is legally entitled to an accommodation.

The Israeli government is regularly taking actions related to the pandemic, imposing varying requirements on our industry. We are continuing to evaluate these evolving requirements. We cannot at this stage predict the various impacts they may have on our workforce, our suppliers, or our Company. These evolving government requirements, along with broader impacts of the continuing pandemic, could impact our workforce and performance, as well as those of our suppliers.

Our future results of operations and liquidity could be adversely impacted by delays in payments of outstanding receivable amounts beyond normal payment terms, supply chain disruptions and operational challenges faced by our customers. Continued outbreaks of COVID-19 could result in a widespread health crisis that could adversely affect the economies and financial markets of many countries, resulting in an economic downturn or a global recession that could cause significant volatility or decline in the trading price of our securities, affect our ability to execute strategic business activities, affect demand for our products and likely impact our operating results. These may further limit or restrict our ability to access capital on favorable terms, or at all, lead to consolidation that negatively impacts our business, weaken demand, increase competition, cause us to reduce our capital spend further, or otherwise disrupt our business.

We are dependent on one-of-a-kind machinery that may malfunction and may not be easily replaced.

The proper function of our manufacturing equipment is an important element in our effectively operating our business. We own and use several unique manufacturing machines, some of which are aging and sometimes malfunction, causing disruptions and occasionally even cessation of our manufacturing activities, which adversely affects our business. It is possible that substantial funds may be required to repair or replace our production machinery, for which replacements or replacement parts may not be readily available to us. Machinery failure could cause a cessation of our manufacturing activities for a significant period of time, which may have a material adverse effect on our business, financial condition and results of operations.

Key customers account for a significant portion of our revenues. The loss of a key customer would have an adverse impact on our business results.

In the years ended December 31, 2021, 2020 and 2019, a group of affiliated companies accounted for 21.2%, 18.9% and 19.5% of our total revenues, respectively, and another group of affiliated companies accounted for 7.9%, 11.6% and 11.5% of our total revenues, respectively. We expect that a significant portion of our future revenues will continue to be dependent on a small number of customers. If we are unable to retain our key customers, or maintain our level of business with such customers, or, if we are unable to attract sufficient new business to compensate for the loss of or reduction in business from any of our key customers, our results of operations and financial condition would be adversely affected.

We are dependent upon a select number of suppliers for timely delivery of key raw materials and the loss of one or more of these suppliers or delays in supply of these raw materials would adversely affect our manufacturing ability. If these suppliers delay or discontinue the manufacture or supply of these raw materials, we may experience delays in production and shipments, increased costs and cancellation of orders for our products.

We currently obtain our key raw materials from a select number of suppliers. We do not have long-term supply contracts with our suppliers and our principal suppliers may not continue to supply raw materials to us at current levels or at all. Any delays in delivery or shortages in these raw materials could interrupt and delay manufacturing of our products and may result in the cancellation of orders for our products.

As the majority of PCB manufacturing is centered in South East Asia, raw material suppliers may focus their attention and give higher priority to manufacturers in those areas, which may interrupt the supply of raw materials to us. In addition, these suppliers could discontinue the manufacture or supply of these raw materials at any time. During the year ended December 31, 2021, our purchases from two (2) suppliers accounted for 21% and 23% of our total of consolidated raw material costs, respectively. In the event such raw materials are not readily available to us. We may not be able to identify and integrate alternative sources of supply in a timely fashion. Any transition to alternate suppliers may result in delays in production and shipment and increased expenses and may limit our ability to deliver products to our customers.

During the beginning of 2021, one of our main suppliers (DuPont), including through its Israeli distributor, failed to supply the Company with Pyralux AP, a key material necessary for the manufacturing of our products, which created a slowdown in our production, such that we were not able to supply certain orders, and others were delayed. During the second and third quarters we were able to obtain authorizations from some of our customers to use alternative raw materials. Nonetheless, not all of our clients have authorized us to use alternative raw materials provided by the new supplier. As of year-end the supply of this material by DuPont returned to normal capacity. Future delays in our supply chain may result in disruption in our operations and may negatively impact both our ability to meet customer demand and our revenue and profit during this period of uncertainty.

If a raw material or component supplier fails to satisfy our product quality standards, including standards relating to “conflict minerals” it could harm our customer relationships. Furthermore, if we are unable to identify an alternative source of supply, we may have to modify our products or a large portion of our production process to use a substitute raw material, which requires customers’ consent of use of such materials and which may cause delays in production and shipments, increased design and manufacturing costs and increased prices for our products.

Because competition in the PCB market is intense, our business, operating results and financial condition may be adversely affected.

The global PCB industry is highly fragmented and intensely competitive. It is characterized by rapidly changing technology, frequent new product introductions and rapidly changing customer requirements. We compete principally in the market for complex, flex-rigid and rigid multi-layer PCBs. In the Israeli market we mainly compete with PCB Technologies Ltd. and major international PCB exporters, mainly from South East Asia, Europe and North America.

In the European market we mainly compete with Advanced Circuit Boards NV (Belgium), AT&S Austria Technologie & Systemtechnik AG (Austria), Dyconex and Cicor (Switzerland), Graphics, Exception PCB and Invotec (United Kingdom), Cistelaier and Somacis (Italy), Schoeller-Electronics GmbH (formerly Ruwel Werke GmbH) (Germany) and certain other German companies. In the North American market we mainly compete with TTM, Inc. (previously known as DDi Corp. and Viasystems), KCA Electronics Inc., Lenthor Engineering, Printed Circuits, Inc., Teledyne and certain other American companies. Many of these competitors have significantly greater financial and marketing resources than us. Our current competition in the rigid PCB segment is mainly from PCB manufacturers in Southeast Asia (mainly in China), which have substantially lower production costs than us. Continued competitive pressures could cause us to lose significant market share.

In addition, these competitors may respond more quickly to new or emerging technologies or adapt more quickly to changes in customer requirements than we do. We must continually develop improved manufacturing processes to meet our customers’ needs for complex products, and our manufacturing process technology is generally not subject to significant proprietary protection. During recessionary periods in the electronics industry, our strategy of providing quick-turn services, an integrated manufacturing solution, and responsive customer service may take on reduced importance to our customers. As a result, we may need to compete more on the basis of price, which would cause our gross margins to decline.

Our results of operations may be adversely affected by currency fluctuations.

Our revenues and expenses are denominated in NIS, US dollars and euros. Due to the different proportions of currencies our revenues and expenses are denominated in, fluctuations in rates of exchange between NIS and other currencies may affect our operating results and financial condition. The NIS value of our dollar and euro denominated revenues are negatively impacted by the devaluation of the dollar and the euro against the NIS. The average exchange rate for the NIS against the dollar was approximately 6.2% lower in 2021 than in 2020, which had a negative impact on our operating results in 2021. In the past, the NIS exchange rate against the dollar and other foreign currencies fluctuated, generally reflecting inflation rate differentials. If NIS value of our dollar or Euro denominated revenues decreases, our results of operations will be adversely affected. We cannot predict any future trends in the rate of inflation in Israel or the rate of devaluation or appreciation of the NIS against the dollar or other foreign currencies.

We are currently not engaged in hedging transactions. If we were to decide to enter into any hedging transactions in the future in order to protect ourselves in part from currency fluctuations, we may not be successful in our hedging efforts, or such transactions, if entered into, may not materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations. Such hedging transactions may not necessarily mitigate the longer-term impact of currency fluctuations on the operating costs of our business operations, and may result in additional expenses.

Unfavorable national and global economic conditions could adversely affect our business, operating results and financial condition.

During periods of slowing economic activity, our customers may reduce their demand for our products, technology and professional services, which would reduce our sales, and our business, operating results and financial condition may be adversely affected. The global and domestic economies continue to face a number of economic challenges, including threatened sovereign defaults, credit downgrades, restricted credit for businesses and consumers and potentially falling demand for a variety of products and services. These developments, or the perception that any of them could occur, could result in longer sales cycles, slower adoption of new technologies and increased price competition for our products and services. We could also be exposed to credit risk and payment delinquencies on our accounts receivable, which are not covered by collateral.

Significant portions of our business are conducted outside the markets in which our products and solutions are manufactured or generally sold, and accordingly, we often export a substantial number of products into such markets. We may be denied access to potential customers or suppliers or denied the ability to ship products from any of our subsidiaries into the countries in which we currently operate or wish to operate, as a result of economic, legislative, political and military conditions, including hostilities and acts of terrorism, in such countries.

In particular, there is currently significant uncertainty about the future relationship between the U.S. and various other countries, with respect to trade policies, treaties, government regulations, and tariffs. For example, the recent imposition of tariffs and/or changes in tariffs on various products by the U.S. and other countries, including China and Canada, have introduced greater uncertainty with respect to trade policies and government regulations affecting trade between the U.S. and other countries, and new and/or increased tariffs have subjected, and may in the future subject, us to additional costs and expenditure of resources. Major developments in trade relations, including the imposition of new or increased tariffs by the U.S. and/or other countries, and any emerging nationalist trends in specific countries could alter the trade environment and consumer purchasing behavior which, in turn, could have a material effect on our financial condition and results of operations. While the U.S. and China signed a "phase one" trade deal on January 15, 2020 to reduce planned increases to tariffs, concerns over the stability of bilateral trade relations remain. In addition, the UK's exit from the European Union known as Brexit, became effective on January 31, 2020. Under the terms of the withdrawal agreement, the UK continued to be subject to the laws and obligations applicable to all EU members during a transitional period which ended on December 31, 2020, including laws related to trade and data privacy and pharmaceuticals, while the future relationship between the UK and the EU was formally negotiated. The UK and the EU have signed a EU-UK Trade and Cooperation Agreement, or TCA, which became provisionally applicable on January 1, 2021 and has entered into force on May 1, 2021. Changes related to Brexit could subject us to heightened risks in that region, including disruptions to trade and free movement of goods, services and people to and from the UK, disruptions to the workforce of our business partners, increased foreign exchange volatility with respect to the British pound and additional legal, political and economic uncertainty. If these actions impacting our international distribution and sales channels result in increased costs for us or our international partners, such changes could result in higher costs to us, adversely affecting our operations, particularly as we expand our international presence.

In response to the to the invasion of the Ukraine by Russia in February 2022, the U.S. and other countries, have imposed various sanctions against Russia including restrictions on selling or importing goods, services or technology in or from affected regions and travel bans and asset freezes impacting connected individuals and political, military, business and financial organizations in Russia. The U.S. and other countries could impose wider sanctions and take other actions. It is not possible to predict the broader consequences of this conflict, which could include further sanctions, embargoes, regional instability, geopolitical shifts in the Middle East and worldwide and adverse effects on macroeconomic conditions, currency exchange rates and financial markets, all of which could impact our business, financial condition and results of operations.

We may also be required in the future to increase our reserves for doubtful accounts. In addition, the fair value of some of our assets may decrease as a result of an uncertain economy and as a result, we may be required to record impairment charges in the future. If global economic and market conditions or economic conditions in key markets remain uncertain or weaken further, our financial condition and operating results may be materially adversely affected.

We are subject to environmental laws and regulations. Compliance with those laws and regulations requires us to incur costs and we are subject to fines or other sanctions for non-compliance.

Our operations are regulated under various environmental laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water, as well as the handling, storage and disposal of such materials. Compliance with these laws and regulations is a major consideration for PCB manufacturers because metals and chemicals classified as hazardous substances are used in the manufacturing process. Since May 2003, our environmental management system has been ISO 14001 certified. This certification was based on successful implementation of environmental management requirements and includes ongoing monitoring of our processes, raw materials and products. The certification is subject to periodic compliance audits conducted by the Standards Institution of Israel. If, in the future, we are found to be in violation of environmental laws or regulations, we could be liable for damages, costs of remedial actions, may be subject to criminal prosecution including a range of potential penalties, and could also be subject to revocation of permits necessary to conduct our business or any part thereof. Any such liability or revocation could have a material adverse effect on our business, financial condition and results of operations. Environmental laws could become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with a violation. A shortage of water in Israel may reduce the allocation of water available to manufacturing plants, including ours, which could affect the concentrations of pollutants in our wastewater, making it harder to comply with the foregoing regulations, in which event we would be required to invest additional funds to improve our wastewater treatment systems.

The cost of compliance with environmental laws and regulations depends in part on the requirements in such laws and regulations and on the method selected to implement them. If new or more restrictive standards are imposed, the cost of compliance could be very high and have an adverse impact on our revenues and results of operations if we cannot recover those costs through the rates that we charge our customers.

Our customers are also required to comply with various government regulations, legal requirements and industry standards, including many of the industry-specific regulations discussed above. Our customers' failure to comply could affect their businesses, which in turn would affect our sales to them. In addition, if our customers are required by regulation or other requirements to make changes in their product lines, these changes could significantly disrupt particular programs for these customers and create inefficiencies in our business.

We have in the past been, and currently are, subject to claims and litigation relating to environmental matters. If we are found to be in violation of environmental laws, we might be liable for damages and costs of remediation and may be subject to a halt in production, which may adversely affect our business, operating results and financial condition.

We have in the past been, and currently are, subject to claims and litigation relating to environmental matters. We may be subject to further environmental claims alleging that we are in violation of environmental laws. If we are unsuccessful in such claims and other future claims and litigations or if actual results are not consistent with our assumptions and judgments, we may be exposed to losses that could be material to our company.

During the period 2014 to 2016, we received notices from Meitav, the water company of the Petach Tikva municipality, requiring payment of fees totaling NIS 3.8 million (\$980,000) excluding VAT, for discharges of industrial wastewater allegedly not meeting the applicable standards into the municipal sewage system. The payment demands were made on the basis of several samplings conducted by Meitav during 2013-2015. In December 2015, we completed the construction of a new wastewater treatment facility. In 2016, six wastewater samples were inspected by Meitav and were found to be in compliance with applicable standards. We reached a settlement with Meitav in July 2016. During 2020 our permit providing for deviations from the standards for discharges into the municipal sewage system expired and we are presently working with Petach Tikva municipality to extend the permit permitting such deviations, but there can be no assurance that such extension will be granted.

In October 2015, we filed an application for an emissions permit with the Israeli Ministry of Environmental Protection, or the Ministry. In January 2016, we received a notice of non-compliance from the Ministry stating that the application was incomplete and that we are in breach of the Clean Air Law, 5768-2008, or the Clean Air Law, and the Licensing of Businesses Law, 5728-1968, or the Licensing of Businesses Law. We submitted amended applications and conducted several discussions with the Ministry in 2016 and 2017 and received the emissions permit in July 2017. In 2021 we received a notice of non-compliance from the Ministry stating that we are in breach of the Clean Air Law in our air sampling. The company believes that it is entitled to a permit providing for deviations from the standards and has filed a request for such permit.

In March 2019, representatives of the Ministry inspected our premises and issued a warning related to an alleged breach of the Clean Air Law and a warning related to the Hazardous Materials Law (1993). Management believes that our company is not in violation of these laws. Following a hearing at the Ministry in August 2019, the Ministry conducted two additional tests after which we were asked to take corrective actions. During May 2020 and July 2020, representatives of the Ministry inspected our premises again. In September 2020 the Ministry issued a warning related to an alleged breach of the Clean Air Law, the Hazardous Materials Law (1993), the Water Law and Business Permit Law. We may be subject to fines and sanctions as stated in such laws. According to this letter, we were invited to a hearing at the Ministry on November 9, 2020. Following that hearing meeting, the district manager issued a protocol stating that he will recommend that the Ministry impose fines on our company. We responded and requested the district and Ministry to reconsider, taking into account the corrective measures taken by us. On August 2021 we got a letter from the ministry and were asked about our Company's sales turnover in order to determine the amount of the fine that will be imposed in regard to the breach of the Hazardous Materials Law (1993). In addition, as part of the Hazardous Materials Law (1993), the Ministry has scheduled ground samples inspection in order to check compliance with applicable standards. We cannot estimate the outcome of such study; if we will be required to take corrective measures and if so, what would be the cost or impact on our business.

If we are found to be in violation of environmental laws, we could be liable, in addition to fines, for damages, costs of remedial actions and a range of potential penalties, and could also be subject to a shutdown of our factory. Such sanctions could have a material adverse effect on our business, financial condition and results of operations.

Increased regulation associated with climate change and greenhouse gas emissions could impose significant additional costs on operations.

Various governments and governmental agencies have adopted or are contemplating statutory and regulatory changes in response to the potential impacts of climate change and emissions of greenhouse gases. International treaties or agreements may also result in increasing regulation of climate change and greenhouse gas emissions, including the introduction of greenhouse gas emissions trading mechanisms. Any such law or regulation regarding climate change and greenhouse gas emissions could impose significant costs on our operations and on the operations of our customers and suppliers, including increased energy, capital equipment, environmental monitoring, reporting and other compliance costs. The potential costs of "allowances," "offsets" or "credits" that may be part of potential cap-and-trade programs or similar proposed regulatory measures are still uncertain. Any adopted future climate change and greenhouse gas laws or regulations could negatively impact our ability, and that of our customers and suppliers, to compete with companies situated in areas not subject to such laws or regulations. These statutory and regulatory initiatives, if enacted, may impact our operations directly or indirectly through our suppliers or customers. Until the timing, scope and extent of any future law or regulation becomes known, we cannot predict the effect on our business, financial condition, results of operations or cash flows.

Increasing scrutiny and changing expectations from investors, lenders, customers and other market participants with respect to our Environmental, Social and Governance, or ESG, policies may impose additional costs on us or expose us to additional risks.

Companies across all industries are facing increasing scrutiny relating to their ESG policies. Investors, lenders and other market participants are increasingly focused on ESG practices and in recent years have placed increasing importance on the implications and social cost of their investments. The increased focus and activism related to ESG may hinder our access to capital, as investors and lenders may reconsider their capital investment allocation as a result of their assessment of our ESG practices. If we do not adapt to or comply with investor, lender or other industry shareholder expectations and standards, which are evolving, or which are perceived to have not responded appropriately to the growing concern for ESG issues, regardless of whether there is a legal requirement to do so, may suffer from reputational damage and the business, financial condition and price our company's shares could be materially and adversely affected.

We may fail to be in compliance with financial covenants in our loan agreements.

We are subject to financial covenants in our loan agreements with the banks that provide us with our credit facilities and long-term loans. Our compliance with the financial covenants is measured annually based on our annual audited financial statements. As of December 31 of each of the three years ended December 31, 2018, we were not in compliance with these covenants and received waivers from our banks. We were compliant with our covenants to the banks with respect to our financial statements for each of the three years ended December 31, 2021. These credit facilities may not remain available to us in the future. Furthermore, under certain circumstances the banks may require us to accelerate or make immediate payment in full of our credit facilities. All of our assets are encumbered as security for our liabilities to our banks, whose consents are required for any future pledge of such assets. The borrowings from our banks are secured by specific liens on certain assets, by a first priority charge on the rest of our now-owned or after-acquired assets and by a fixed lien on goodwill (intangible assets) and insurance rights (rights to proceeds on insured assets in the event of damage). In addition, the agreements prohibit us from selling or otherwise transferring any assets except in the ordinary course of business or from placing a lien on our assets without the banks' consent.

Both of the banks have the right to demand immediate repayment of the loans and lines of credit in the event of non-compliance with the financial covenants or a change of control in our company, if such a change occurred without their prior approval. Our failure to remain in compliance with each of the banks' covenants, obtain waivers, negotiate agreements with new covenant terms, or obtain additional financing, if required, may adversely affect our business, results of operations and financial position.

We may not be able to receive Israeli governmental grants in the future.

The Company was awarded a grant from the Israeli Investment Authority that will fund 15% of our expected \$1.5 million investment in Advanced Manufacturing Equipment compliant with Industry 4.0 standards, which focuses on interconnectivity, automation, machine learning, and real-time data. The grant also provides for potential future grants covering an additional 5% of these capital investments, as soon as we demonstrate improvements in certain of our operational indicators. There is no guarantee that we will demonstrate such improvements or be awarded the additional grant.

We received final approval from the Israel Innovation Authority ("IIA") for a 50%, royalty bearing participation in an approximately \$250,000 one-year development program, which started in March 2021. The total R&D program may be extended for a second year, subject to IIA approval. This R&D program is meant to enable us to achieve a significantly faster production rate in certain stages of our manufacturing process, which will also drastically reduce scrap. There can be no assurance that the R&D program will succeed in achieving its goals or that all pre-defined benefits will be attained, thus any additional grants are not guaranteed.

Rapid changes in the Israeli and international electronics industries and recessionary pressures may adversely affect our business.

Our principal customers include manufacturers of defense and aerospace, medical, industrial, telecom and networking equipment, as well as contract electronic manufacturers. The electronics industry is subject to rapid technological changes and products obsolescence. Discontinuance or modification of products containing PCBs manufactured by our company could have a material adverse effect on us. In addition, the electronics industry is subject to sharp economic cycles. Increased or excess production capacity by our competitors in the PCB industry and recessionary pressure in major electronics industry segments may result in intensified price competition and reduced margins. As a result, our financial condition and results of operations may be adversely affected. A decline in the Israeli and international electronic markets may cause a decline in our revenues and adversely affect our operating results and financial condition in the future.

We may not succeed in our efforts to expand our activity in the U.S. and other foreign markets. If we are unsuccessful, our future revenues and profitability would be adversely affected.

Our business plan assumes an increase in revenues from the U.S. and other market. However, our efforts to increase sales to such markets may not succeed. Sales to the medical, defense and aerospace industries may be affected by several factors, including with respect mainly to the U.S., cutbacks in government spending. If we are unsuccessful in such efforts, our future revenues and profitability would be adversely affected.

In order to sell PCBs to the U.S. defense market we were required to obtain International Traffic in Arms Regulations (ITAR) registration from the U.S. Department of State, which is subject to periodic extension. There can be no assurance that we will be able to retain our ITAR certification. In the event of a change in control of our company, the U.S. Department of State may investigate the transfer of control and oppose the transaction. The loss of our ITAR certification could adversely affect our future revenues and profitability.

We may be subject to the requirements of the National Industrial Security Program Operating Manual for our facility security clearance, which is a prerequisite to our ability to work on classified contracts for the U.S. government.

A facility security clearance is required in order to be awarded and perform classified contracts for the U.S. Department of Defense, or the DoD, and certain other agencies of the U.S. government. To become a cleared entity, we must comply with the requirements of the National Industrial Security Program Operating Manual, or the NISPOM, and any other applicable U.S. government industrial security regulations. Further, due to the fact that a significant portion of our voting equity is owned by a non-U.S. entity, we are required to be governed by and operate in accordance with the terms and requirements of a Special Security Agreement, or the SSA.

If we were to violate the terms and requirements of the SSA, the NISPOM, or any other applicable U.S. government industrial security regulations (which may apply to us under the terms of classified contracts), we could lose our security clearance. We cannot be certain that we will be able to maintain our security clearance. If for some reason our security clearance is invalidated or terminated, we may not be able to continue to perform on classified contracts and would not be able to enter into new classified contracts, which could materially adversely affect our business, financial condition, and results of operations.

Breaches of network or information technology security, natural disasters or terrorist attacks could have an adverse effect on our business.

Cyber-attacks or other breaches of network or IT security, natural disasters, terrorist acts or acts of war may cause equipment failures or disrupt our systems and operations. We may be subject to attempts to breach the security of our networks and IT infrastructure through cyber-attack, malware, computer viruses and other means of unauthorized access, which could also impact the operation of our products and services. Our inability to operate our facilities as a result of such events, even for a limited period of time, may result in significant expenses or loss of market share to other competitors in the global PCB industry. In addition, a failure to protect the privacy of customer and employee confidential data against breaches of network or IT security could result in damage to our reputation. During the third quarter of 2021, an unusual activity was detected on our computer network systems. We immediately took a number of actions that led to the removal of the potential threat. The event ended without the need to disable our systems or any other impact. We believe that the attempt was aimed at extracting information and not for a ransom demand. Following the incident, we took steps to strengthen our computer infrastructure protection systems. Due to our quick response, we did not have a material adverse effect on our business or operations to date. However, we could incur significant costs in order to investigate and respond to future attacks, to respond to evolving regulatory oversight requirements, to upgrade our cybersecurity systems and controls, and to remediate security compromise or damage. In response to past threats and attacks, we have implemented further controls and planned for other preventative actions to further strengthen our systems against future attacks. However, we cannot assure that such measures will provide absolute security, that we will be able to react in a timely manner in the future, or that our remediation efforts following past or future attacks will be successful. Consequently, our financial performance and results of operations would be materially adversely affected.

We may encounter difficulties with our international operations and sales that may have a material adverse effect on our sales and profitability.

Contracts with U.S. military agencies, as well as military equipment manufacturers in Europe, are subject to certain regulatory restrictions and approvals, which we may not be able to comply with or obtain. We may not be able to maintain or increase international market demand for our products. To the extent that we cannot do so, our business, operating results and financial condition may be adversely affected.

International operations are subject to inherent risks, including the following:

- the impact of possible recessionary environments or economic instability in multiple foreign markets;
- changes in regulatory requirements and complying with a wide variety of foreign laws;
- tariffs and other trade barriers;
- the imposition of exchange or price controls or other restrictions on the conversion of foreign currencies; and
- difficulties and costs of staffing and managing foreign operations.

Significant political developments could also have a materially adverse effect on us. In the United States, potential or actual changes in fiscal, defense appropriations, tax and labor policies could have uncertain and unexpected consequences that materially impact our business, results of operations and financial condition.

Damage to our manufacturing facilities due to fire, natural disaster, or other events could materially adversely affect our business, financial condition, and results of operations.

The destruction or closure of our facility for a significant period of time as a result of fire, explosion, act of war or terrorism, flood, tornado, earthquake, lightning, other natural disasters, required maintenance, or other events could harm us financially, increasing our costs of doing business and limiting our ability to deliver our manufacturing services on a timely basis.

Our insurance coverage with respect to damage to our facility or our customers' products caused by natural disasters is limited and is subject to deductibles and coverage limits. Such coverage may not be adequate or continue to be available at commercially reasonable rates and terms.

In the event our facility is closed on a temporary or permanent basis as a result of a natural disaster, required maintenance or other event, our operations could be significantly disrupted. Such events could delay or prevent product manufacturing and shipment for the time required to transfer production or repair, rebuild or replace the affected manufacturing facilities. This time frame could be lengthy and result in significant expenses for repair and related costs. While we have disaster recovery plans in place, there can be no assurance that such plans will be sufficient to allow our operations to continue in the event of disaster, required repair or other extraordinary event. Any extended inability to continue our operations at unaffected facilities following such an event would reduce our revenue and potentially damage our reputation as a reliable supplier.

Our quarterly operating results fluctuate significantly. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

Our quarterly operating results have fluctuated significantly in the past and are likely to fluctuate significantly in the future. Our future operating results will depend on many factors, including (but not limited to) the following:

- the size and timing of significant orders and their fulfillment;
- demand for our products and the mix of products purchased by our customers;
- competition from lower priced manufacturers;
- fluctuations in foreign currency exchange rates, primarily the NIS against the Dollar and the Euro;
- manufacturing yield;
- plant utilization;
- availability of raw materials;
- plant or line shutdowns to repair or replace malfunctioning manufacturing equipment;
- the length of our sales cycles;
- changes in our strategy;
- the number of working days in the quarter;
- changes in seasonal trends; and
- general domestic and international economic and political conditions.

Due to the foregoing factors, quarterly revenues and operating results are difficult to forecast, and it is likely that there will be significant differences between the results from one quarter to another.

Quarterly sales and operating results are also difficult to forecast because they are dependent almost exclusively on the volume and timing of orders during the quarter and our customers generally operate with a short delivery cycle and expect delivery of a significant portion of the order within 30 working days. The delivery of such orders is subject to the number of available working days during the quarter, which can fluctuate significantly from quarter to quarter due to holidays and vacations. Certain prototype and pre-production runs require even shorter turn-around times stemming from customers' product launches and design changes. In addition, there might be sudden increases, decreases or cancellations of orders for which there are commitments, which further characterize the electronics industry and the companies that operate in it. The industry practice is to make such changes without any penalties, except for the time and materials expended on the order.

Our expenses are, in significant part, relatively fixed. If revenue levels fall below expectations, our net income is likely to be disproportionately adversely affected because a proportionately smaller amount of the expenses varies with our revenues. We may not be able to be profitable on a quarterly or annual basis in the future. An ongoing pattern of cancellations, reductions in orders and delays could have a material adverse effect on our results of operations. Due to all of the foregoing, it is very difficult to predict revenues for any future quarter with any significant degree of accuracy. Accordingly, we believe that period-to-period comparisons of our operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

Our products and related manufacturing processes are often highly complex and therefore we may be delayed in product shipments. Our products may at times contain manufacturing defects, which may subject us to product liability and warranty claims.

Our business involves highly complex manufacturing processes that are subject to periodic failure. Process failures have occurred in the past and have resulted in delays in product shipments, and process failures may occur in the future. Furthermore, we face an inherent business risk of exposure to warranty and product liability claims, which are likely to be substantial in light of the use of our products in business-critical applications. Our products may fail to perform as expected or may be alleged to result in bodily injury or property damage. If we were to manufacture and deliver products to our customers that contain defects, whether caused by a design, manufacturing or component failure, or by deficiencies in the manufacturing processes, it may result in delayed shipments to customers and reduced or cancelled customer orders. In addition, if any of our products are or are alleged to be defective, we may be required to participate in a recall of such products. Over the years we have been involved in claims or litigation relating to allegedly defective products. A successful warranty or product liability claim against us in excess of our established warranty and legal reserves or available insurance coverage, or a requirement that we participate in a product recall may have a material adverse effect on our business, financial condition, results of operations or cash flows and may harm our business reputation, which could lead to customer cancellations or non-renewals.

Our products and product components need to meet certain industry standards.

Our products and product components need to meet certain standards for the aerospace, defense, and other industries to which we market our products. In addition, new industry standards in the aviation and defense industries could cause some or all of our products and services to become obsolete and unmarketable, which would adversely affect our results of operations. Noncompliance with any of these standards could limit our sales and adversely affect our business, financial condition, and results of operations.

Our operating margins may be affected as a result of price increases for our principal raw materials.

In recent years, our suppliers have increased their prices for most of our principal raw materials. We have faced pressure to raise our prices for our products to compensate for supplier price increases in order to maintain our operating margins, which we may not be able to achieve due to the competitive market. Furthermore, our existing suppliers or new suppliers or sources of materials may pass the increase in sourcing costs due to the coronavirus outbreak to us through price increases, thereby impacting our margins. Material changes in the pricing practices of our suppliers could negatively impact our profitability. Additional price increases for our principal raw materials may materially affect our operating margins and future profitability.

We compete with PCB manufacturers in Asia whose manufacturing costs are lower than ours.

In recent years, many electronics manufacturers have moved their commercial production to Asia to take advantage of its exceptionally large, relatively low-cost labor pool. The continued outsourcing of production to Asia is likely to result in additional commercial market share potential for PCB manufacturers with a strong presence and reputation in such markets. Accordingly, we will need to compete with PCB manufacturers whose costs of production may be substantially lower than ours. This competition may limit our ability to price our products profitably, which could significantly harm our financial condition and results of operations. In addition, we distinguish ourselves by focusing on developing cutting edge technologies for high-end products, in order to serve our sophisticated defense, aerospace and medical customers. This may limit our ability to reach certain clientele that demand lower-end products in order to reduce their costs.

Our enterprise resource planning system is no longer being fully supported by its developer and the hardware on which it runs may not be supported in the future; The failure of such system before we transition to a new system may adversely affect our business and results of operations and the effectiveness of our internal control over financial reporting.

Our current enterprise resource planning system ("ERP") is designed to improve the efficiency of our supply chain and financial transaction processes, accurately maintain our books and records, and provide information important to the operation of the business to our management team. Our system is no longer being fully supported by its developer and the hardware on which the ERP runs on and the operating system of the hardware are at high risk of not being supported in the near future. While we intend to replace the system in the future, there is no immediate plan to do so. Any significant disruption or deficiency in our ERP could have a material adverse effect on our ability to fulfill and invoice customer orders, apply receipts, place purchase orders with suppliers, and make disbursements, and could negatively impact data processing and electronic communications among business locations, which may have a material adverse effect on our business, consolidated financial condition or results of operations.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the costs of certain metals used in the manufacturing of our solutions.

The Dodd-Frank Wall Street Reform and Consumer Protection Act imposes disclosure requirements regarding the use in components of our products of "conflict minerals" mined from the Democratic Republic of Congo and adjoining countries, whether the components of our products are manufactured by us or third parties. These requirements could affect the pricing, sourcing and availability of minerals used in the manufacture of components we use in our products. Although the U.S. Securities and Exchange Commission, or the SEC, has provided guidance with respect to a portion of the conflict mineral filing requirements that may somewhat reduce our reporting practices, there are costs associated with complying with the disclosure requirements and customer requests, such as costs related to our due diligence to determine the source of any conflict minerals used in our products. Because of the complexity of our supply chain, we may face reputational challenges if we are unable to sufficiently verify the origins of the subject minerals. Moreover, we are likely to encounter challenges to satisfy those customers who require that all of the components of our products are certified as "conflict free." If we cannot satisfy these customers, they may choose a competitor's products.

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002, which could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, governing internal control and procedures for financial reporting have resulted in increased general and administrative expenses and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. We may identify material weaknesses or significant deficiencies in our assessments of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigations or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

Technological change may adversely affect the market acceptance of our products.

Technological change in the PCB industry is rapid and continual. To satisfy customers' needs for increasingly complex products, PCB manufacturers must continue to develop improved manufacturing processes, provide innovative solutions and invest in new facilities and equipment. To the extent we determine that new technologies and equipment are required to remain competitive, the development, acquisition and implementation of such technologies and equipment are likely to require significant capital investment. We expect that we will need to invest large amounts in the next few years to replace or refurbish old equipment and to remain competitive in the market. This capital may not be available to us in the future for such purposes and any new manufacturing processes developed by us may not become or remain commercially viable. As a result, we may not be able to maintain our current technological position. Furthermore, the PCB industry may in the future encounter competition from new technologies that may reduce demand for PCBs or may render existing technology less competitive or obsolete. Our future process development efforts may not be successful or the emergence of new technologies, industry standards or customer requirements may render our technology, equipment or processes obsolete or uncompetitive.

The measures we take in order to protect our intellectual property may not be effective or sufficient.

Our success depends in part on our proprietary techniques and manufacturing expertise, particularly in the area of complex multi-layer and flex-rigid PCBs. We currently rely on a combination of trade secrets, copyright and trademark law, together with non-disclosure and invention assignment agreements, to establish and protect the proprietary rights and technology used in our products. Like many companies in the PCB industry, we currently do not hold any patents. We believe that, because of the rapid pace of technological change in the electronics industry, the legal protections for our products are less significant factors in our success than the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services that we provide.

We generally enter into confidentiality agreements with our employees, consultants, customers and potential customers and limit the access to and the distribution of our proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use our technology without authorization, or to develop similar technology independently. Further, the laws of certain countries in which we sell our products do not protect our intellectual property rights to the same extent as do the laws of the United States. Substantial unauthorized use of our products could have a material adverse effect on our business. We cannot make assurances that our means of protecting our proprietary rights will be adequate or that our competitors will not independently develop similar technology.

Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs.

While we do not believe that our products and proprietary rights infringe upon the proprietary rights of others, third parties may assert infringement claims against us or claims that we have violated a patent or infringed on a copyright, trademark or other proprietary right belonging to them. Any infringement claim, even one without merit, could result in the expenditure of significant financial and managerial resources to defend against the claim. Moreover, a successful claim of product infringement against us or a settlement could require us to pay substantial amounts or obtain a license to continue to use the technology that is the subject of the claim, or otherwise restrict or prohibit our use of the technology. We might not be able to obtain a license from the third party asserting the claim on commercially reasonable terms, if at all. We also may not be able to obtain a license from another provider of suitable alternative technology to permit us to continue offering the product. Infringement claims asserted against us could have a material adverse effect on our business, operating results and financial condition.

During the last several years, a supplier of one of our software packages requested us to conduct an audit of our operations to verify that we do not breach any intellectual property rights it allegedly owns. We believe that we have fully, diligently and timely complied with our obligation toward the supplier. We also believe that the supplier has no right to conduct any audit of our products or services and such audit may cause us to breach confidentiality obligations to other entities, and therefore replied that there were no grounds for his request. If we are found to be in violation of such supplier's intellectual property rights, we could be liable for compensation and costs of an unknown amount. Such liability could have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Our Human Capital

If our workforce will be represented by a labor union we could incur additional costs or experience work stoppages as a result of the renegotiation of our labor contracts.

Our employees have previously presented us with the possibility of establishing an employees' union committee, which was soon after dissolved. If our employees are represented by a union in the future, we could incur additional costs, experience work stoppages, either of which could adversely affect our business operations, including through a loss of revenue and strained relationships with customers. Strikes and work stoppages occur relatively frequently in Israel. If Israeli trade unions threaten additional strikes or work stoppages and such strikes or work stoppages occur, these may, if prolonged, have a material adverse effect on the Israeli economy and on our business, including our ability to deliver products to our customers in a timely manner.

From time to time, we may be named as a defendant in actions involving the alleged violation of labor laws related to employment practices, wages and benefits.

From time to time we are involved in labor related legal proceedings arising from the operation of our business. During the last years we recruited a new management team and reduced our overall headcount, which actions may expose our company to increased labor related legal proceedings.

Under current Israeli law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We currently have non-competition clauses in the employment agreements of most of our employees. The provisions of such clauses prohibit our employees, if they cease working for us, from directly competing with us or working for our competitors. Recently, Israeli labor courts have required employers, seeking to enforce non-compete undertakings against former employees, to demonstrate that the competitive activities of the former employee will cause harm to one of a limited number of material interests of the employer recognized by the courts (for example, the confidentiality of certain commercial information or a company's intellectual property). In the event that any of our employees chooses to leave and work for one of our competitors, we may be unable to prevent our competitors from benefiting from the expertise our former employee obtained from us, if we cannot demonstrate to the court that we would be harmed.

We depend on key personnel for the success of our business.

Our success depends, to a significant extent, on the continued active participation of our executive officers and other key personnel. In addition, there is significant competition for employees with technical expertise in our industry. In order to succeed we would need to be able to:

- retain our executive officers and key technical personnel;
- attract and retain additional qualified personnel to provide technological depth and support to enhance existing products and develop new products; and
- attract and retain highly skilled operations, marketing and financial personnel.

We cannot make assurances that we will be successful in attracting, integrating, motivating and retaining key personnel. If we are unable to retain our key personnel and attract additional qualified personnel as and when needed, our business may be adversely affected.

Our ability to have access to insurance programs for directors and officers may be curtailed, which may adversely affect our ability to retain and attract directors and officers. In recent years we have experienced difficulties in obtaining directors & officers' insurance on reasonable terms as result of a tightening insurance market. If we are unable to continue to obtain directors & officers' insurance or in limits of coverage sufficient to satisfy our indemnification obligations to our directors and officers, we may be unable to retain such directors and officers and have limited ability to attract replacements.

We may be required to make payments to satisfy our indemnification obligations.

We have agreements with our directors and senior officers which may require us, subject to Israeli law and certain limitations in the agreements, to indemnify our directors and senior officers for certain liabilities and expenses that may be imposed on them due to acts performed, or failures to act, in their capacity as office holders as defined in the Israeli Companies Law, 5759-1999, or the Israeli Companies Law. These liabilities may include financial liabilities imposed by judgments or settlements in favor of third parties, and reasonable litigation expenses imposed by a court in relation to criminal charges from which the indemnitee was acquitted or criminal proceedings in which the indemnitee was convicted of an offense that does not require proof of criminal intent. Furthermore, we agreed to exculpate our directors and officers with respect to a breach of their duty of care towards our company. On October 17, 2017, our shareholders approved an updated indemnification agreement to be entered to with our directors and officers, and our shareholders approved an amendment thereto on December 5, 2019.

Risks Related to Our Ordinary Shares

Our share price has been volatile in the past and may continue to be susceptible to significant market price and volume fluctuations in the future.

Our ordinary shares have experienced significant market price and volume fluctuations in the past and may experience significant market price and volume fluctuations in the future in response to factors such as the following, some of which are beyond our control:

- quarterly variations in our operating results;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates by securities analysts and investors;
- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us;
- announcements by governmental or regulatory authorities of significant investigations or proceedings against us;
- additions or departures of key personnel;
- changes in our cost structure due to factors beyond our control, such as new laws or regulations relating to environmental matters and employment;
- future sales of our ordinary shares;
- our involvement in litigation;
- general stock market price and volume fluctuations;
- changes in the prices of our products and services; and
- devaluation of the dollar against the NIS.

Domestic and international stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general political and economic conditions, such as a recession, interest rate or currency rate fluctuations or political events or hostilities in or surrounding Israel, could adversely affect the market price of our ordinary shares. Low trading volume may also increase the price volatility of our ordinary shares. A thin trading market could cause the price of our ordinary shares to fluctuate significantly more than the stock market as a whole.

The voting interest of Mr. Nissan, individually and through Nistec Golan, our controlling shareholder, may conflict with the interests of other shareholders.

Mr. Yitzhak Nissan, our Chairman of the Board and the controlling shareholder of Nistec Golan, beneficially owns 69.6% of our outstanding ordinary shares. Accordingly, Mr. Nissan and Nistec Golan have the ability to exercise a significant influence over our business and affairs and generally have the power to determine all matters submitted to a vote of our shareholders where our shares vote together as a single class, including the election of directors and approval of significant corporate transactions. Mr. Nissan and Nistec Golan may make decisions regarding Eltek and our business that are opposed to other shareholders' interests or with which other shareholders may disagree. Nistec Golan's and Mr. Nissan's voting power could have the effect of deterring or preventing a change in control of our company that might otherwise be beneficial to our other shareholders.

We may in the future be classified as a passive foreign investment company, or PFIC, which would subject our U.S. investors to adverse tax rules.

U.S. holders of our ordinary shares may face income tax risks. There is a risk that we will be treated as a “passive foreign investment company” (“PFIC”). Our treatment as a PFIC could result in a reduction in the after-tax return to U.S. Holders (as defined below in “Material U.S. Federal Income Tax Considerations”) of our ordinary shares and would likely cause a reduction in the value of such shares. A foreign corporation will be treated as a PFIC for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of “passive income,” or (2) at least 50% of the average value of the corporation’s gross assets produce, or are held for the production of, such “passive income.” For purposes of these tests, “passive income” includes dividends, interest, gains from the sale or exchange of investment property and rents and royalties other than rents and royalties that are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute “passive income.” If we are treated as a PFIC, U.S. Holders of ordinary shares would be subject to a special adverse U.S. federal income tax regime with respect to the income derived by us, the distributions they receive from us, and the gain, if any, they derive from the sale or other disposition of their ordinary shares. In particular, dividends paid by us, if any, would not be treated as “qualified dividend income,” eligible for preferential tax rates in the hands of non-corporate U.S. shareholders. We believe that we were not a PFIC for the 2021 tax year. However, since PFIC status depends upon the composition of our income and the market value of our assets from time to time, there can be no assurance that we will not become a PFIC in any future taxable year. U.S. Holders should carefully read “Material U.S. Federal Income Tax Considerations” for a more complete discussion of the U.S. federal income tax risks related to owning and disposing of our ordinary shares.

We do not expect to distribute dividends in the foreseeable future.

We have never declared or paid any cash dividends on our ordinary shares. We currently intend to retain our current and any future earnings to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future. According to the Israeli Companies Law, a company may distribute dividends out of its profits, provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due, or otherwise upon the permission of the court. In the event cash dividends are declared, such dividends will be paid in NIS. The declaration of dividends is subject to the discretion of our board of directors and would depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment.

Risks Related to Our Organization and Location in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.

We are incorporated under the laws of, and our principal executive offices, production, manufacturing and research and development facilities are located in, the State of Israel. As a result, political, economic and military conditions affecting Israel directly influence us. Conflicts in North Africa and the Middle East, including Syria which borders Israel, have resulted in continued political uncertainty and violence in the region. Efforts to improve Israel’s relationship with the Palestinian Authority have failed to result in a permanent solution, and there have been numerous periods of hostility in recent years. In addition, relations between Israel and Iran continue to be seriously strained, especially with regard to Iran’s nuclear program. Such instability may affect the local and global economy, could negatively affect business conditions and, therefore, could adversely affect our operations. To date, these matters have not had any material effect on our business and results of operations; however, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

Our commercial insurance does not cover losses that may occur as a result of an event associated with the security situation in the Middle East. Although the Israeli government has in the past covered the reinstatement value of certain damages that were caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained, or if maintained, will be sufficient to compensate us fully for damages incurred. Any losses or damages incurred by us could have a material adverse effect on our operations.

Parties with whom we do business have sometimes declined to travel to Israel during periods of heightened unrest or tension, forcing us to make alternative arrangements when necessary in order to meet our business partners face to face. In addition, the political and security situation in Israel may result in parties with whom we have agreements involving performance in Israel claiming that they are not obligated to perform their commitments under those agreements pursuant to force majeure provisions in such agreements. Furthermore, several countries and companies restrict business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies. Restrictive laws or policies directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

To date, these matters have not had any material effect on our business and results of operations; however, the internal political situation, the regional security situation and worldwide perceptions of it are outside our control and there can be no assurance that these matters will not negatively affect us in the future.

Our results of operations may be negatively affected by the obligation of our personnel to perform military reserve service.

Some of our employees, directors and officers in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers and the Israeli experts named herein, all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since substantially all of our assets, all of our directors and officers and the Israeli experts named in this annual report are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act and the Exchange Act in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those and similar acts.

Provisions of Israeli law may delay, prevent or make difficult an acquisition of us, which could prevent a change of control and therefore impact the price of our shares.

Provisions of Israeli corporate and tax laws may have the effect of delaying, preventing or making more difficult a merger with, or other acquisition of, us or all or a significant portion of our assets. Israeli corporate law regulates acquisitions of shares through tender offers and mergers, requires special approvals for transactions involving significant shareholders and regulates other matters that may be relevant to these types of transactions. These provisions of Israeli law could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us, even if doing so would be beneficial to our shareholders. These provisions may limit the price that investors may be willing to pay in the future for our ordinary shares. Furthermore, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders.

These laws may have the effect of delaying or deterring a change in control of our company, thereby limiting the opportunity for shareholders to receive a premium for their shares and possibly affecting the price that some investors are willing to pay for our company's securities. This could cause our ordinary shares to trade at prices below the price for which third parties might be willing to pay to gain control of us. Third parties who are otherwise willing to pay a premium over prevailing market prices to gain control of us may be unable or unwilling to do so because of these provisions of Israeli law.

The rights and responsibilities of our shareholders are governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association, articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, each shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli company, or a shareholder who knows that he or she possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or officer in the company, has a duty of fairness toward the company. Currently there is not a clear definition of the duty of fairness under Israeli law. There is limited case law available to assist us in understanding the nature of this duty or the implications of these provisions. These provisions may be interpreted to impose additional obligations and liabilities on holders of our ordinary shares that are not typically imposed on shareholders of U.S. corporations.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements. We follow Israeli law and practice instead of NASDAQ rules regarding the composition of the board of directors, director nomination process and quorum at shareholders' meetings.

As a foreign private issuer whose shares are listed on the NASDAQ Capital Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the NASDAQ Stock Market Rules. We follow Israeli law and practice instead of the NASDAQ Stock Market Rules regarding the composition of the board of directors, director nomination process and quorum at shareholders' meetings. As a foreign private issuer listed on the NASDAQ Capital Market, we may also follow home country practice regarding, for example, the requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the SEC, or on its website, each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

The termination or reduction of tax and other incentives that the Israeli government provides to domestic companies may increase the costs involved in operating a company in Israel.

The Israeli government currently provides tax and capital investment incentives to domestic companies, as well as grant and loan programs relating to research and development and marketing and export activities. In recent years, the Israeli government has reduced the benefits available under these programs and the Israeli governmental authorities have indicated that the government may in the future further reduce or eliminate the benefits of those programs. We have taken in the past and may take advantage of these benefits and programs again in the future, however, there is no assurance that such benefits and programs will continue to be available to us in the future. If such benefits and programs were terminated or further reduced, it could have an adverse effect on our business, operating results and financial condition. The government tax benefits that we currently are entitled to receive require us to meet several conditions and may be terminated or reduced in the future.

Some of our operations in Israel may entitle us to certain tax benefits under the Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law, once we are profitable. If we do not meet the requirements for maintaining these benefits, they may be reduced or canceled and the relevant operations would be subject to Israeli corporate tax at the standard rate, which is set at 23% in 2018 and thereafter. In addition to being subject to the standard corporate tax rate, we could be required to refund any tax benefits that we have already received, plus interest and penalties thereon. Even if we continue to meet the relevant requirements, the tax benefits that our current "Benefited Enterprise" is entitled to may not be continued in the future at their current levels or at all. If these tax benefits were reduced or eliminated, the amount of taxes that we pay would likely increase, as all of our operations would consequently be subject to corporate tax at the standard rate, which could adversely affect our results of operations. Additionally, if we increase our activities outside of Israel, for example, by way of acquisitions, our increased activities may not be eligible for inclusion in Israeli tax benefits programs.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We were incorporated under the laws of the State of Israel on January 1, 1970. We are a public limited liability company under the Israeli Companies Law, and operate under that law and associated legislation. Our registered offices and principal place of business are located at 20 Ben Zion Gelis Street, Sgoola Industrial Zone, Petach Tikva 4927920, Israel and our telephone number is +972-3-9395025. Our website is www.nisteceltek.com. The information on our website is not incorporated by reference into this annual report.

We manufacture and supply technologically advanced custom made circuitry solutions for use in sophisticated and compact electronic products. We provide specialized services and are a solution provider in the PCB business, mainly in Israel, Europe, North America and Asia. PCBs are platforms that conduct an electric current among active and passive microelectronics components, microprocessors, memories, resistors and capacitors and are integral parts of the products produced by high-technology industries. Our focus is on short run quick-turnaround, prototype, pre-production and low to medium volume runs of high-end PCB products for high growth, advanced electronics applications, mainly flex-rigid PCBs.

We design and develop innovative manufacturing solutions pursuant to complex interconnect requirements of original equipment manufacturers, and provide our customers with a wide range of custom designed PCBs, including complex rigid, double-sided and multi-layer PCBs as well as flexible circuitry (flex and flex-rigid boards) made of several types of high-performance base material. To complement our quick-turnaround, prototype, pre-production and low to medium volume production capability and provide our customers with single source service, we also act as an agent for the importation of PCBs from South East Asia when customers require high volume production runs, although such activity was not significant in recent years.

In July 2007, we established Eltek USA Inc. ("Eltek USA"), a wholly-owned subsidiary incorporated in Delaware, to manage our sales and marketing in the North American market. In December 2008, we established Eltek Europe GmbH, a wholly-owned subsidiary organized in Germany, to manage our sales and marketing activities for certain European customers.

In November 2013, Nistec acquired 50.5% of our issued share capital and gained control of our company. In June 2016, Mr. Nissan, the controlling shareholder of Nistec, and our Chairman and then CEO, acquired 124,028 ordinary shares of our company in the market, increasing his ownership interest from 50.5% to 56.6%.

In December 2018, Nistec Ltd., transferred its ownership interest in our company to Nistec Golan Ltd. Nistec Golan and Nistec Ltd. are privately held companies indirectly controlled by Mr. Nissan, through Nistec Holdings Ltd.

In March 2019, we completed a rights offering to our shareholders of 2,351,716 ordinary shares at a price of \$1.464 per share, for an aggregate consideration of \$3.4 million. Of such shares, Nistec acquired 1,707,364 shares and Mr. Nissan individually acquired 206,712 of our ordinary shares, increasing his direct and indirect voting interest from 56.6% to 65.4%.

In December 2020, we completed a rights offering to our shareholders of 1,460,089 shares at a price of \$3.90 per share, for an aggregate consideration of \$5.7 million. Of such shares, Nistec acquired 1,159,813 shares, and Mr. Nissan individually acquired 43,576 of our ordinary shares, increasing his direct and indirect voting interest from 65.4% to 69.6%.

During the three years ended December 31, 2021, we invested approximately \$3.5 in new equipment and the expansion of our facilities and infrastructure. Subject to availability of financial resources, we expect to invest approximately \$2.4 million in capital expenditures in 2022, mainly for manufacturing equipment to expand our manufacturing capacity and to upgrade our technological capabilities. We intend to finance these expenditures with suppliers' credit, cash flow from operations, fund raising and bank loans; however, external financing may not be available, or, if available, may not be on terms favorable to us.

In addition, we are considering expanding our business to a new facility within a few years. For this purpose we filed a request to the Ministry of Economics to approve our acquisition of certain property in Nof Hagalil (northern Israel) with exemption from “tender” made by the Israel Land Authority (“ILA”) for land allocation. The Ministry of Economics approved its recommendation to the ILA to grant us such land with exemption from tender for 24 months. We have applied to the ILA for the necessary permits in order to finalize the terms of a long term pre-paid lease. We are at a very early stage in this process and have not yet formulated a final plan or sought approval for a new facility in Nof Hagalil. There is no assurance that we will obtain all the permits necessary for such acquisition and construction of a new plant from the ILA or that we will be able to finance such project.

B. Business Overview

Industry Overview

PCBs are constructed from a variety of base raw materials. PCBs can be double-sided or multi-layered and made of rigid, flexible, flex-rigid or high-frequency materials. In essence, they are platforms that conduct electrical signals among active and passive microelectronics components, microprocessors, memories, resistors and capacitors. Photolithographic type processes transfer the images of the electrical circuit onto the layers, and chemical processes etch these lines on the boards. There are several broad categories of PCBs:

Rigid PCBs. Rigid PCBs are the core product of the industry and can be found in virtually every electronics device. The layer count of these products generally ranges from two to 30 layers, although some PCBs are composed of 42 layers.

Flexible and flex-rigid PCBs. Flexible boards are thin, light-weight circuits used to interconnect other circuit boards and electronic devices within electronic equipment. Flex-rigid boards are composed of rigid parts and flexible layers. They generally range from two to 30 layers. Flex-rigid boards provide solutions for electronic systems that impose space and shape restrictions and for systems in which reliability of connectivity is crucial. These products are often found in military applications (primarily avionics), medical and measurement equipment and the automotive industry, among other uses.

Backplanes. Backplanes are large, high-density circuit boards with design features such as tight tolerance finished hole sizes that require precise process controls. These products are commonly known as “motherboards” on which connectors are mounted to receive and interconnect other PCBs and can be found primarily in telecommunications applications.

PCB manufacturers can generally be classified based on two parameters, product sophistication and service sophistication. Product sophistication is evident in the capability of a PCB manufacturer to offer products with higher layer counts and more complex construction, as well as in the line width and the spacing of lines on the circuit boards. The state-of-the-art HDI technology enables manufacturers to produce PCBs with line width and spaces as narrow as 2-3 mils and hole diameters of 4 to 6 mils.

Industry Trends

We believe that several trends are impacting the PCB manufacturing industry. These trends include:

Shorter electronic product life cycles. Continual advances in technology have shortened the life cycles of complex commercial electronic products, placing greater pressure on manufacturers to quickly bring new products to market. The accelerated time-to-market and ramp-to-volume needs of manufacturers for high-end commercial equipment create opportunities for PCB manufacturers that can offer engineering support in the prototype stage and manufacturing scalability throughout the production life cycle.

Increasing complexity of electronic products. Manufacturers continue to design higher performance electronic products which take advantage of advances in semiconductor technology. This in turn requires technologically complex PCBs that can accommodate higher speeds and component densities, including HDI, flexible and substrate PCBs. These complex PCBs can require very high layer counts, miniaturized circuit connections, advanced manufacturing processes and materials, and high-mix production capabilities, which involve processing small lots in a flexible manufacturing environment. Manufacturers increasingly rely upon larger PCB manufacturers, which possess the financial resources necessary to invest in advanced manufacturing process technologies and sophisticated engineering staff, often to the exclusion of smaller PCB manufacturers that do not possess such technologies or resources.

Increasing concentration of global PCB production in Asia. In recent years, many electronics manufacturers have moved their commercial production to Asia to take advantage of its exceptionally large, relatively low-cost labor pool. In particular, the trend has favored China, which according to industry sources has the largest PCB market in terms of both revenue and number of suppliers. The overall technical capability of suppliers in China has improved dramatically in recent years, and China has emerged as a global production center for cellular phones, smartphones, tablet PCs, computers and computer peripherals, and high-end consumer electronics. The continued outsourcing of production to China should result in additional commercial market share potential for PCB manufacturers with a strong presence and reputation in China.

Decreased reliance on multiple PCB manufacturers. Manufacturers traditionally have relied on multiple PCB manufacturers to provide different services as an electronic product moves through its life cycle. The transfer of a product among different PCB manufacturers often results in increased costs and inefficiencies due to incompatible technologies and manufacturing processes and production delays. In addition, manufacturers generally find it easier and less costly to manage fewer PCB manufacturers. As a result, manufacturers are reducing the number of PCB manufacturers and backplane assembly service providers on which they rely, presenting an opportunity for those that can offer one-stop manufacturing capabilities — from prototype to volume production.

Increased requirements for aerospace and defense products. The aerospace and defense markets are characterized by increasingly time-consuming and complex certification processes, long product life cycles, and a demand for leading-edge technology with extremely high reliability and durability. While the DoD budget faces increasing scrutiny as part of overall U.S. budget deficit reduction efforts, we anticipate that a continued DoD commitment to new product development and upgrades — incorporating leading-edge PCB technology in products for intelligence, surveillance and reconnaissance, communications and weapon systems — combined with Foreign Military Sales (the “FMS”) programs and a recovering global commercial aerospace industry will support a significant long-term market for these products.

Shortage of key raw materials. PCB manufacturers obtain their key raw materials from a select number of suppliers. Any delays in delivery of or shortages in these raw materials could interrupt and delay manufacturing of PCB products and may result in the cancellation of orders for our products. If a raw material or component supplier fails to satisfy our product quality standards, including standards relating to “conflict minerals” it could harm our customer relationships. Furthermore, if we are unable to identify an alternative source of raw material or component supplier, we may have to modify our products or a large portion of our production process to use a substitute raw material, which requires customers’ consent of use of such materials and which may cause delays in production and shipments, increased design and manufacturing costs and increased prices for our products. In addition, price increases for our principal raw materials may materially affect our operating margins and future profitability.

Reduction in backlog. Due to the costs involved, our customers are increasingly reluctant to maintain inventory and refrain from placing orders significantly in advance. As a result, we have experienced a reduction in order backlog and uncertainty in respect of future orders.

Introduction of new disruptive technologies. Semi-additive and fully-additive technologies are arising and are expected to affect conventional industries in the future.

Domestic production. Many PCB users are concerned that their designs will be copied by overseas producers. As PCB's become more complex and more critical to the end design, there are raising concerns over IP theft and security. This results in increased market share of domestic PCB producers.

Manufacturing and Engineering Processes

Continued significant investments in equipment are necessary in order to maintain technological competitiveness in the PCB industry. During the three years ended December 31, 2021, we invested approximately \$3.5 million in machinery and equipment for that purpose.

Manufacturing Capabilities. We have the capability to manufacture PCBs having in excess of 36 layers, flex-rigid boards, blind and buried vias and designs using materials as thin as 1 mil. We receive orders for production with turnaround times of generally between several days to two months. We are able to produce short runs of five to 30 units of simple type PCBs within four to five working days, and a few hundred units within ten working days, and are capable of producing such number of boards within five working days when production line scheduling permits.

During 2018 we incurred water damage to two electrical testing systems in our production facility. We were not able to reach an agreement for the damage and the payment from the insurance company on our insurance claim; therefore we filed a claim with the Israeli court. We cannot be sure that such legal proceedings in this matter will be successfully completed.

During 2021 we invested in machinery and equipment, including a new Inspecta (X-ray drilling and measuring system), a new Laser drilling machine, a new plasma machine and two additional mechanical drilling machines that are still under verification process.

Computer Aided Design/Computer Aided Manufacturing (CAD/CAM). We utilize a state-of-the-art CAD system developed by Frontline PCB Solutions Ltd., an Israeli-based company, and can receive CAD data by electronic data transmission. Our CAD workstations perform design rule checks on transmitted designs, incorporate any customer-specific design modifications and perform manufacturability enhancements that increase PCB quality.

Advanced Finishing Capabilities for Dense Packaging Designs. We provide a wide assortment of alternative surface finishes, including hot air solder leveling, electroless gold over nickel, immersion silver, outsource nickel/palladium/gold and immersion tin, for the attachment of components to PCBs.

Other Advanced Process Capabilities. We provide fabrication of dense multi-layer PCBs. We use an advanced inner-layer production line, a laser direct imaging system, mechanical and laser drilling equipment and clean room environments (ISO-7) to produce technologically advanced products.

Quality, Environmental and Safety Standards. Our quality management system has been ISO 9001:2008 certified since July 2002. Such certification is based on successful implementation of quality assurance requirements and includes ongoing monitoring of our business and periodic compliance audits conducted by the Israeli Institute of Standards. We have obtained United States Department of Defense Qualified Product List approval (MIL-PRF-55110G and MIL-P-50884E) for our products. Since 1976, our rigid glass epoxy (FR4 and FR5) and flex-rigid boards have been UL 94V-0 certified by Underwriters Laboratories Inc. (a standards organization that offers product safety testing and certification of product safety). Our environmental management system has been ISO 14001:2004 certified since 2005 (and prior to such date was ISO 14001 certified from 2003). We are OHSAS 18001:2007 certified for occupation health and safety management systems since December 2007. In November 2009, we became certified to the AS 9100B quality management standard for the aerospace industry and in August 2012 we were upgraded to AS 9100C.

Sales, Customers and Marketing

Sales. In the years ended December 31, 2021, 2020 and 2019, the primary industries for which we produced PCBs were defense and aerospace equipment (41.2%, 47.6% and 55.2% of production, respectively), medical equipment (8.8%, 8.3%, and 9.5% of production, respectively), industrial equipment (4.4%, 2.5% and 2.1% of production, respectively), distributors, contract electronic manufacturers and others (45.6%, 41.6% and 33.2% of production, respectively).

Customers. During the year ended December 31, 2021, we provided PCBs to approximately 149 customers in Israel and approximately 76 customers outside of Israel. Our customers outside of Israel are located primarily in North America, the Netherlands, India, Italy, Romania, Uruguay, China and South Africa. Sales to non-Israeli customers were \$14.9 million (43.9% of revenues) for the year ended December 31, 2021, \$16.0 million (43.6% of revenues) for the year ended December 31, 2020 and \$15.1 million (43.5% of revenues) for the year ended December 31, 2019. In the years ended December 31, 2021, 2020 and 2019, a group of affiliated companies accounted for 21.2%, 18.9% and 19.5%, of our total revenues, respectively, and another group of affiliated companies accounted for 7.9%, 11.6% and 11.5% of our total revenue, respectively.

Marketing. We market and sell our products primarily through our direct sales personnel, sales representatives and through PCB trading and manufacturing companies. We currently have eight persons involved in sales, of which four persons are located in Israel and four persons are located in the United States. In North America, we market and sell our products through Eltek USA as well as through independent local sales representatives. PCB trading and manufacturing companies act as distributors of our products in the Netherlands, Italy, and South Africa. In India, we market our products through a local sales representative. We maintain technical support services for our customers worldwide. We also maintain customer service support centers that handle all logistical matters relating to the delivery of our products and receive and handle complaints relating to delivered products. Our customer service personnel currently consist of four persons.

Our strategy is to focus on the high end of the PCB market, mainly in flex-rigid PCBs, in which margins are better. We are currently focusing our marketing efforts on the defense and medical industries. To penetrate the U.S. defense market, we applied for ITAR registration from the U.S. Department of State, Bureau of Political-Military Affairs, which we received in January 2009. ITAR regulates the manufacture, export and transfer of defense articles, information and services. ITAR is a set of U.S. government regulations that controls the export and import of certain defense-related articles and services. The regulations restrict sensitive information and technologies only to be shared with U.S. persons, unless special approval is acquired. To qualify for ITAR registration, we met strict requirements for corporate structure, security, record keeping and procedures to allow us to sell our PCBs for use in U.S. defense products. In November 2009, we became certified to the AS 9100B quality management standard for the avionic industry in order to strengthen our position in the avionic and aerospace market in North America and Europe. In January 2014, we received accreditation from Nadcap, a global cooperative accreditation program for aerospace engineering and related industries, for our advanced circuitry solutions, including rigid and flex-rigid printed circuit boards.

During 2021 we established a sales team for commercial activities which cooperate with reliable PCB manufacturers from the Far East.

We have ongoing programs to upgrade our processes by implementing high-quality standards, employee training and special training activities for clients. Marketing efforts include recruiting independent sales representatives in various geographic areas, the distribution of promotional materials, seminars for engineers, and the supply of technical information to business publications.

Materials and Supplies

The materials used in the manufacture of PCBs are primarily laminates (copper clad, with an isolating core separating them), prepreg composite materials, photo-chemical films, chemicals and inks. The materials we use are manufactured in Europe, North America and South East Asia. Some of the materials are purchased directly from the manufacturer, while others are purchased from local distributors.

During recent years, price negotiations with our suppliers resulted in lower price increases than requested by our suppliers; however, we may not continue to be successful in such negotiations in the future. We have also faced pressure to raise our prices for our products to compensate for these price increases and although we have managed to date to maintain our sales prices with moderate price increases, we may not be able to do so in the future. During recent years the price for raw materials increased due to the Copper demand in the world and the price rise for resin and glass.

We, like most PCB manufacturers, generally obtain our key raw materials from a select number of suppliers. Any delays in delivery of or shortages in these raw materials could interrupt and delay manufacturing of PCB products and may result in the cancellation of orders for our products. If a raw material or component supplier fails to satisfy our product quality standards, including standards relating to “conflict minerals” it could harm our customer relationships. Furthermore, if we are unable to identify an alternative source of raw material or component supplier, we may have to modify our products or a large portion of our production process to use a substitute raw material, which requires customers’ consent of use of such materials and which may cause delays in production and shipments, increased design and manufacturing costs and increased prices for our products.

In 2021, one of our main suppliers (DuPont), including through its Israeli distributor, failed to supply the Company with Pyralux AP, a key material necessary for the manufacturing of our products, which created a slowdown in our production, such that we were not able to supply certain orders, and others were delayed. During the second and third quarters we were able to obtain authorizations from some of our customers to use alternative raw materials. Nonetheless, not all of our clients have authorized us to use alternative raw materials provided by the new supplier. As of year-end, the supply of this material by DuPont returned to normal capacity. Future delays in our supply chain may result in disruption in our operations and may negatively impact both our ability to meet customer demand and our revenue and profit during this period of uncertainty.

Competition

The global PCB industry is highly fragmented and intensely competitive, trends that we believe will continue. The global PCB industry is characterized by rapidly changing technology, frequent new product introductions and rapidly changing customer requirements. We compete principally in the market for complex, flex-rigid multi-layer PCBs. In the Israeli market, we mainly compete with major PCB exporters, mainly from South East Asia, North America and Europe, and the Israeli firm PCB Technologies Ltd. In the European market we mainly compete with Advanced Circuit Boards NV (Belgium), Dyconex and Cicor (Switzerland), Graphics, Exception PCB and Invotec (United Kingdom), Cistelaier and Somacis (Italy), Schoeller-Electronics GmbH (formerly Ruwel Werke GmbH) (Germany) and certain other German companies. In the North American market, we mainly compete with TTM, Inc. (previously known as DDi Corp and Viasystems), KCA Electronics Inc., Lenthor Engineering, Printed Circuits, Inc., Teledyne. Many of these competitors have significantly greater financial, technical and marketing resources than us. Although capital requirements are a significant barrier to entry for manufacturing complex PCBs, the basic interconnect technology is generally not protected by patents or copyrights. Our current competition in the rigid PCB segment is mainly from PCB manufacturers in the Far-East (mainly in China), which have substantially lower production costs than us. Continued competitive pressures could cause us to lose market share and reduce prices.

Backlog

Due to the costs involved, our customers are increasingly reluctant to maintain inventory and refrain from placing orders significantly in advance. Accordingly, the backlog outstanding at any point in time is not necessarily indicative of the level of business to be expected in the ensuing period.

Our backlog at December 31, 2021 was approximately \$10.0 million compared to a backlog of approximately \$6.8 million at December 31, 2020. We include in our backlog all purchase orders scheduled for delivery within the next 12 months.

Environmental Matters

Our environmental management system has been ISO 14001 certified since May 2003. This certification was based on successful implementation of environmental management requirements and includes ongoing monitoring of our processes, raw materials and products. The certification is subject to periodic compliance audits conducted by the Israeli Institute of Standards.

PCB manufacturing requires the use of metals and chemicals classified as hazardous substances. Water used in the manufacturing process must be treated to remove metal particles and other contaminants before it can be discharged into the local sewer systems. We operate and maintain effluent water treatment systems and use approved testing procedures at our manufacturing facilities. There is no assurance, however, that violations will not occur in the future. We are also subject to environmental laws and regulations relating to the storage, use and disposal of chemicals, solid waste and other hazardous materials, as well as air quality regulations. Environmental laws and regulations could become more stringent over time, and the costs of compliance with more stringent laws could be substantial. Environmental regulations enacted in Israel in September 2000 provide that a company that is found to have discharged water containing contaminants will be liable for quadruple the amount normally charged for its water consumption. Over the years, we have undertaken various actions to reduce the use of water in our manufacturing facilities, and invested in improving our effluent wastewater treatment system to lower the amounts of inorganic salts and copper concentration in the discharged water.

A shortage of water in Israel may reduce the allocation of water available to manufacturing plants, including ours, which could affect the concentrations of pollutants in our wastewater, making it harder to comply with the foregoing regulations, in which event we would be required to invest additional funds to improve our wastewater treatment systems.

In March 2019, representatives of the Ministry of Environmental Protection inspected our premises and issued a warning related to an alleged breach of the Clean Air Law and a warning related to the Hazardous Materials Law (1993). Following a hearing at the Ministry in August 2019, the Ministry conducted two additional tests after which we were asked to take corrective actions. During May 2020 and July 2020, representatives of the Ministry inspected our premises again. In September 2020, the Ministry issued a warning related to an alleged breach of the Clean Air Law, the Hazardous Materials Law (1993), the Water Law and the Business Permit Law. We attended another hearing at the Ministry on November 9, 2020. Following that hearing, the district manager issued a protocol stating that he will recommend that the Ministry imposes fines on our company. On August 5, 2021, we received a letter from the Ministry entitled "Requirement for details of annual sales turnover under the Hazardous Materials Law." According to the letter, such information is required for the purpose of determining the financial sanction that will be imposed on our company due to violation of conditions in the toxins permit, as observed during inspection of our plant in May 2020.

If we are found to be in violation of environmental laws in the future, we could be liable for fees, damages, costs of remedial actions and a range of potential penalties, and could also be subject to revocation of permits necessary to conduct our business or any part thereof. Any such liability or revocation could have a material adverse effect on our business, financial condition and results of operations.

Intellectual Property Rights

Our success depends in part on our proprietary techniques and manufacturing expertise, particularly in the area of manufacturing complex multi-layer and flex-rigid PCBs. Like many companies in the PCB industry, we do not hold any patents and rely principally on trade secret protection of our intellectual property. We believe that, because of the rapid pace of technological change in the electronics industry, the legal protections for our products are less significant factors in our success than the knowledge, ability and experience of our employees, the frequency of product enhancements and the timeliness and quality of support services that we provide.

C. Organizational Structure

In December 2008, we established Eltek Europe GmbH, a wholly-owned subsidiary organized in Germany, to manage our sales and marketing activities for certain European customers. Eltek Europe became inactive in 2019 and during 2020 we started the liquidation process that is expected to be concluded in 2022.

In July 2007, we established Eltek USA Inc., a wholly-owned subsidiary incorporated in Delaware, to manage our sales and marketing activities in the North American market. Eltek USA Inc. commenced operations in 2008.

In November 2013, Nistec acquired a controlling 50.5% stake in our company. In June 2016, Mr. Nissan, our Chairman and then CEO and the controlling shareholder of Nistec, acquired 124,028 additional ordinary shares of our company, increasing his direct and indirect voting interest from 50.5% to 56.6%. In December 2018, Nistec Ltd. transferred its ownership interest in our company to Nistec Golan Ltd. Nistec Golan and Nistec Ltd., are privately held companies indirectly controlled by Mr. Nissan, through Nistec Holdings Ltd. In March 2019, as part of a rights offering, Nistec acquired 1,707,364 shares and Mr. Nissan individually acquired 206,712 of our ordinary shares, increasing his direct and indirect voting interest from 56.6% to 65.4%. In our second rights offering in In December 2020, Nistec acquired 1,159,813 shares, and Mr. Nissan individually acquired 43,576 of our ordinary shares, increasing his direct and indirect voting interest from 65.4% to 69.6%.

D. Property, Plants and Equipment

Leased Facilities

Our executive offices, as well as our design, production, storage and shipping facilities, aggregating approximately 90,000 square feet, are located in an industrial building in the Sgoola Industrial Zone of Petach Tikva, Israel. In 2020, we signed an amendment to the lease agreement which extend the lease contract until February 2027 with a 7% increase in rent, with an option to extend the lease for an additional five years period with an additional 3% increase in rent, which will expire in February 2032. In the year ended December 31, 2021, we incurred \$1 million of leasing expenses for these premises.

We are considering expanding our business to a new facility within a few years. For this purpose we filed a request to the Ministry of Economics to approve our acquisition of certain property in Nof Hagalil (northern Israel) with exemption from “tender” made by the Israel Land Authority (“ILA”) for land allocation. The Ministry of Economics approved its recommendation to the ILA to grant us such land with exemption from tender for 24 months. We have applied to the ILA for the necessary permits in order to finalize the terms of a long term pre-paid lease. We are at a very early stage in this process and have not yet formulated a final plan or sought approval for a new facility in Nof Hagalil. There is no assurance that we will obtain all the permits necessary for such acquisition and construction of a new plant from the ILA or that we will be able to finance such project.

Our U.S. subsidiary, Eltek USA Inc., leases approximately 1,682 square feet of office space in New Hampshire under a lease that expires in February 2024. In the year ended December 31, 2021, we paid an aggregate of \$14,000 in lease payments for these premises.

ITEM 4A. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion of our results of operations should be read together with our consolidated financial statements and the related notes, which appear elsewhere in this annual report. The following discussion contains forward-looking statements that reflect our current plans, estimates and beliefs and involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this annual report.

Overview

We were incorporated under the laws of the State of Israel in 1970. We develop, manufacture, market and sell PCBs, including HDI multi-layered and flex-rigid boards for electronic devices. Our principal customers include manufacturers of medical equipment, defense and aerospace equipment, industrial equipment, and telecom and networking equipment, as well as contract electronic manufacturers. We have production facilities in Israel, marketing subsidiaries in the United States and an inactive subsidiary in Germany.

Our consolidated financial statements appearing in this annual report are prepared in dollars in accordance with U.S. GAAP. Our functional currency is the NIS. The consolidated financial statements appearing in this annual report are translated into dollars at the representative rate of exchange under the current rate method. Under such method, the income statement and cash flows statement items for each year (or period) stated in this report are translated into dollars using the average exchange rates in effect at each period presented, and assets and liabilities for each year (or period) are translated using the exchange rate as of the balance sheet date (as published by the Bank of Israel), except for equity accounts, which are translated using the rates in effect at the date of the transactions. All resulting exchange differences that do not affect our earnings are reported in the accumulated other comprehensive income as a separate component of shareholders' equity.

Recent Developments

Although the effects of the COVID-19 pandemic on the local economy and most relevant economies worldwide have mostly subsided or significantly improved and the worldwide vaccination process is in progress, it is not clear that new infection waves will not arise, given the appearance of continued or new virus mutations. During 2021, the pandemic did not materially affect our company's operations, which have been deemed an "essential enterprise" by the Israeli government and we are making efforts to operate as normal. Our ability to collect money, pay bills, handle customer and consumer communications, schedule production and order raw materials necessary for our production has not been materially impacted, except the delay we were facing in the first quarter of 2021 in supply of certain raw materials, which may negatively impact both our ability to meet customer demand and our revenue and profit during this period of uncertainty.

Results of Operations

The following table sets forth, for the periods indicated, selected financial information expressed as a percentage of our total revenues:

	Year Ended December 31,		
	2021	2020	2019
Revenues	100%	100%	100%
Cost of revenues	(79.6)	(78.9)	(82.7)
Gross profit	20.4	21.1	17.3
Research and development expenses	(0.2)	-	-
Selling, general and administrative expenses	(14.4)	(12.8)	(13.3)
Operating profit	5.8	8.3	4.0
Financial expenses, net	(1.4)	(0.9)	(1.3)
Other income (loss), net	0.1	(0.1)	2.7
Profit before income tax expense	4.5	7.3	5.4
Income tax benefit (expense)	10.4	(0.2)	(0.2)
Net profit	14.9	7.1	5.2

Year Ended December 31, 2021 Compared with Year Ended December 31, 2020

Revenues. Revenues decreased by 8% to \$33.8 million in the year ended December 31, 2021, from \$36.7 million in the year ended December 31, 2020. The decrease in revenues is primarily attributable to shortage of a key raw material during the year.

Cost of Revenues. Cost of revenues decreased by 7% to \$26.9 million for the year ended December 31, 2021, from \$29.0 million for the year ended December 31, 2020. The decrease in cost of revenues is primarily attributable to decrease in revenues.

Gross Profit. Gross profit decreased by 10.9% to \$6.9 million for the year ended December 31, 2021, from \$7.7 million for the year ended December 31, 2020. Gross profit as a percentage of revenues decrease to 20.4% for the year ended December 31, 2021, from 21.1% for the year ended December 31, 2020. The decrease in gross profit is primarily attributable to the decrease in revenues, and the devaluation of the US Dollar against the NIS.

Selling, General and Administrative Expenses. Selling, general and administrative expenses were \$4.9 million in the year ended December 31, 2021 as compared to \$4.7 million in the year ended December 31, 2020. The increase of \$0.2 million is primarily attributable to increased rates of D&O insurance.

Operating Profit. We recorded an operating profit of \$1.9 million in the year ended December 31, 2021 compared to an operating profit of \$3.0 million in the year ended December 31, 2020. The decrease is primarily attributable to the decrease in revenues and the devaluation of the US Dollar against the NIS.

Financial Expenses, Net. Financial expenses, net increased to \$0.5 million in the year ended December 31, 2021, from \$0.3 million in the year ended December 31, 2020. The increase in financial expenses in 2021 compared to 2020 is primarily attributable to the devaluation of the US Dollar against the NIS and its impact on our cash balances during the year.

Other Income (Expenses), Net. We had other income, net of \$41,000 in the year ended December 31, 2021, mainly attributable to compensation received for an insurance claim we filed with the insurance company. We had other expenses, net of \$16,000 in the year ended December 31, 2020, mainly attributable to the disposal of equipment.

Income Tax Expense. During the year ended December 31, 2021 we released the tax loss carryforwards valuation allowance recorded in prior years. This release resulted in a tax benefit of \$3.5 million in the year ended December 31, 2021. Tax expenses in 2020 and 2019 were mainly attributable to the increase in deferred tax liability and tax related to our subsidiary in the United States.

Year Ended December 31, 2020 Compared with Year Ended December 31, 2019

Please see Item 5A of our Form 20-F for the year ended December 31, 2020 filed on March 25, 2021, for this comparison.

Change in policy for recognizing stock-based compensation expense

In the fourth quarter of 2021, the Company changed its policy for recognizing stock-based compensation expense for graded-vesting awards with service conditions only, from the accelerated attribution method to the straight-line attribution method. The Company views these awards as single awards and believes that the straight-line attribution method more accurately reflects the pattern of service provided by the employees versus the accelerated attribution method which significantly front loads the stock-based compensation expense and does not appropriately match the expense with the services provided. In addition, based on research and analysis, the Company believes the straight-line attribution method for stock-based compensation expense for service condition-only awards is the predominant method used in its industry. The Company has concluded that the straight-line attribution method for stock-based compensation is a preferable accounting policy in accordance with ASC 250, Accounting Changes and Error Corrections and has applied this change retrospectively. The impact from the change in accounting policy for periods prior to January 1, 2021 was immaterial. Set forth are the restated 2021 quarterly results of operations (the change had no impact on the Company balance sheet or shareholders equity for these [periods]):

Year ended December 31,	Three months period ended			
	March 31, 2021	June 30, 2021	September 30, 2021	December 31, 2021
	(\$ in thousands)			
Revenues	7,205	9,132	7,965	9,521
Cost of revenues	(6,063)	(6,743)	(6,555)	(7,565)
Gross profit	1,142	2,389	1,410	1,956
Selling, general and administrative Expenses	1,000	1,332	1,228	1,310
R&D expenses, net	-	10	45	23
Operating profit	142	1,047	137	623
Financial income (expenses), net	104	(84)	(121)	(387)
Other income (loss), net	(2)	-	44	(1)
Profit before income tax expense	244	963	60	235
Income tax (expense)	(15)	(35)	(14)	3,601
Net Profit	229	928	46	3,836

Impact of Currency Fluctuations and Inflation

Our revenues and expenses are denominated in the NIS, dollars and Euros. Due to the different proportions of currencies our revenues and expenses are denominated in, fluctuations in rates of exchange between NIS and other currencies may affect our operating results and financial condition. For example, the NIS value of our dollar or Euro denominated revenues are negatively impacted in case of a devaluation of the dollar and the Euro against the NIS. The average exchange rate for the NIS against the dollar was approximately 6.16% lower in 2021 than 2020 and the average exchange rate of the NIS against the Euro was 2.54% lower in 2021 than 2020 and in total, these changes had a negative impact on our operating results in 2021. The average exchange rate for the NIS against the dollar was 3.43% lower in 2020 than 2019 and the average exchange rate of the NIS against the Euro was 1.73% lower in 2020 than 2019, and in total, these changes had a negative impact on our operating results in 2020.

The following table sets forth, for the periods indicated, devaluation or appreciation of the NIS against the most important currencies for our business, the Dollar and Euro, between December 31 each year and December 31 of the year before.

	Year Ended December 31,				
	2021	2020	2019	2018	2017
Dollar	(3.27)%	(6.97)%	(7.79)%	8.10%	(9.83)%
Euro	(10.76)%	1.7%	(9.63)%	3.35%	2.69%

From time to time in the past we have used currency hedging instruments in order to partially protect ourselves from currency fluctuation and may use hedging instruments from time to time in the future.

Because exchange rates between the NIS and the dollar and Euro fluctuate continuously, exchange rate fluctuations, particularly larger periodic devaluations, may have an impact on our profitability and period-to-period comparisons of our results. We cannot assure you that in the future our results of operations may not be materially adversely affected by currency fluctuations.

Increase in inflation is due to many factors beyond our control, such as rising production and labor costs, high debts, changes in the Israeli and foreign governmental policy and regulations, and movements in exchange rates and interest rates. The Israeli national consumer price index, which is an indicator of the inflation, was 2.8%, (0.7%) and 0.6% in 2021, 2020 and 2019, respectively. Inflation rates may increase in the future. If inflation rates rise, the costs of our business operations may become significantly higher than anticipated, and we may be unable to pass on such higher costs to consumers in amounts that are sufficient to cover those increasing operating costs. As a result, further inflationary pressures in Israel, and worldwide, may have a material adverse effect on our business, financial condition and results of operations, as well as our liquidity and profitability.

Conditions in Israel

We are incorporated under the laws of, and our executive offices, principal production facilities and research and development facilities are located in, the State of Israel. See Item 3D. “Key Information – Risk Factors – Risks Relating to Our Operations in Israel” for a description of governmental, economic, fiscal, monetary or political policies or factors that have materially affected or could materially affect our operations.

Trade Relations

Israel is a member of the United Nations, the International Monetary Fund, the International Bank for Reconstruction and Development and the International Finance Corporation. Israel is a member of the World Trade Organization and is a signatory to the General Agreement on Tariffs and Trade. In addition, Israel has been granted preferences under the Generalized System of Preferences from Australia and Canada. These preferences allow Israel to export the products covered by such programs either duty-free or at reduced tariffs. Israel is also a member of the Organization for Economic Co-operation and Development, or the OECD, an international organization whose members are governments of mostly developed economies. The OECD’s main goal is to promote policies that will improve the economic and social well-being of people around the world.

Israel and the E.U. concluded a Free Trade Agreement in July 1975 that confers some advantages with respect to Israeli exports to most European countries and obligated Israel to lower its tariffs with respect to imports from these countries over a number of years. In 1985, Israel and the United States entered into an agreement to establish a Free Trade Area. The Free Trade Area has eliminated all tariff and some non-tariff barriers on most trade between the two countries. On January 1, 1993, an agreement between Israel and the European Free Trade Association, known as the EFTA, established a free-trade zone between Israel and the EFTA nations. In November 1995, Israel entered into a new agreement with the E.U., which includes a redefinition of rules of origin and other improvements, such as allowing Israel to become a member of the Research and Technology programs of the E.U. In June 2014, Israel joined the E.U.’s Horizon 2020 Research and Innovation program. In recent years, Israel has established commercial and trade relations with a number of other nations, including Russia, China, India, Turkey and most recently, UAE, and other nations in Eastern Europe and Asia.

Effective Corporate Tax Rate

Israeli companies are generally subject to income tax on their taxable income under the Income Tax Ordinance, 5721-1961. The regular corporate tax rate in Israel has been 23% since 2018. However, our production facility qualifies as a “benefited enterprise” under the Law for the Encouragement of Capital Investments, 5719-1959, as amended. We may select a “preferred enterprise” status, which will allow us to be taxed at a rate of 16% on all of our income. For additional information see Item 10E. “Additional Information – Taxation - Tax Benefits Under the Law for the Encouragement of Capital Investments, 5719-1959” and Note 18 to our consolidated financial statements.

As of December 31, 2021, we had approximately \$20.4 million in tax operating loss carryforwards and \$11.1 million in capital loss carry forwards in Israel, which can be offset against future income in Israel without time limitation. In Israel, we have received final tax assessments through the 1995 tax year. Tax assessments through the 2016 tax year are considered final due to the statute of limitations. Our European subsidiary, Eltek Europe, has received final tax assessments through the 2013 tax year. Our U.S. subsidiary has not yet received any final tax assessments since its incorporation.

In 2021, we reversed the valuation allowance recorded in past years due to our conclusion that it is more likely than not that the Company will realize its deferred tax losses in the future and recorded a tax benefit of \$3.5 million. In 2020, we recorded tax expenses of \$71,000, mainly in respect of our subsidiary in the United States.

B. Liquidity and Capital Resources

Historically, we have financed our operations through cash generated by operations, shareholder loans, long-term and short-term bank loans, borrowings under available credit facilities and the proceeds from our initial public offering in 1997 (approximately \$5.8 million). In August 2013, we entered into a definitive investment agreement with Nistec pursuant to which Nistec purchased 706,531 of our ordinary shares (approximately 34.8% of our issued share capital on a fully diluted basis) in consideration of \$4.2 million.

In June 2017, we received a loan of NIS 5.0 million (approximately \$1.4 million) from Nistec and in March 2018, we received additional loans from Nistec in the amount of NIS 4.0 million (approximately \$1.2 million). In July 2018, we received a third loan from Nistec of NIS 1.0 million (approximately \$290,000). In December 2018, these loans and the shares of our company that were held by Nistec were transferred within the Nistec group to an affiliated company, Nistec Golan Ltd. We and Nistec Golan subsequently renegotiated the term and interest provisions of these loans aggregating NIS 10 million (approximately \$ 2.9 million) and on December 5, 2019, our shareholders approved the execution of the renegotiated interest agreement with Nistec Golan (the "Interest Agreement"). Under the terms of the Interest Agreement, the loans carried interest ranging from Prime + 1% to Prime + 1.75%.

In addition to the above loans, in January 2019, Nistec Golan provided a NIS 2.0 million (approximately \$580,000) guarantee of an existing line of credit to a bank, which was payable on April 30, 2019. In February 2019, our audit committee approved the exercise of the option that Nistec would repay the debt owed to the bank and would be converted into a loan to us from Nistec, which was repaid on May 1, 2020.

In March 2019, we completed a rights offering to our shareholders of 2,351,716 ordinary shares at a price of \$1.464 per share, for an aggregate consideration of \$3.4 million. Of such shares, Nistec acquired 1,707,364 shares and Mr. Nissan individually acquired 206,712 of our ordinary shares, increasing his direct and indirect voting interest from 56.6% to 65.4%. The proceeds of this rights offering were used to reduce our outstanding debt under our lines of credit by NIS 6.0 million (approximately \$1.7 million), as well as for working capital and other general corporate purposes, including investment in equipment.

In June 2020, we obtained a five-year loan of NIS 4 million (approximately \$1.2 million) from Mizrahi-Tefahot Bank, guaranteed by Nistec Ltd. The loan is for a period of five years and has preferred terms including a repayment schedule that starts after a 12 month grace period and carried interest of Prime + 1.50%, which was waived for the first year of the loan.

In December 2020, we completed a rights offering to our shareholders of 1,460,089 shares at a price of \$3.90 per share, for an aggregate consideration of \$5.7 million. Of such shares, Nistec acquired 1,159,813 shares, and Mr. Nissan individually acquired 43,576 of our ordinary shares, increasing his direct and indirect voting interest from 65.4% to 69.6%. The proceeds of this rights offering were used to reduce our outstanding debt of NIS 10.0 million to Nistec (approximately \$3.1 million), as well as for working capital and other general corporate purposes, including investment in equipment.

In May 2021, we obtained a loan of NIS 10 million (approximately \$3.1 million) from Bank Leumi. The loan is for a period of ten years, with preferred terms including a repayment schedule that starts after a 12 month grace period and carried interest of Prime + 1.50%, which was waived for the first year of the loan.

As of December 31, 2021, we had \$9.3 million in cash and cash equivalents and working capital of \$13.3 million compared to \$4.7 million in cash and cash equivalents and a working capital deficit of \$9.1 million at December 31, 2020.

As of December 31, 2021, we had revolving lines of credit of approximately \$2.8 million with Bank Hapoalim B.M. Our credit lines bear annual interest at Prime + 0.85% and our long-term NIS bank loans bear annual interest of Prime + interest at range of 1.50% to 1.75%.

The credit lines and loans from the banks are secured by specific pledge on certain assets, by a first priority charge on the rest of our now-owned or after-acquired assets and by a fixed pledge on goodwill (intangible assets) and insurance rights (rights to proceeds on insured assets in the event of damage). In addition, the agreements with the banks prohibit us from selling or otherwise transferring any assets except in the ordinary course of business or from placing a lien on our assets without the banks' consent.

Bank Hapoalim and Bank Leumi require us to maintain a specific set of covenants each fiscal year. We are required to meet all of the following financial covenants: (i) maintaining adjusted shareholders' equity equal to the greater of \$4.5 million or 17% of our consolidated total assets; and (ii) a debt service ratio of 1.5. For this purpose, adjusted shareholders' equity excludes certain intangible and other assets. Debt service ratio is defined as the ratio of EBITDA to current maturities of long-term debt plus interest expenses. As of December 31, 2021, 2020 and 2019, we were in compliance with the covenants.

These credit facilities may not remain available to us in the future and under certain circumstances the banks may require us to accelerate or make immediate payment in full of our credit facilities. All of our assets are pledged as security for our liabilities to our banks, whose consents are required for any future pledge of such assets.

Our working capital requirements and cash flow provided by our operating and financing activities are likely to vary greatly from quarter to quarter, depending on the following factors: (i) the timing of orders and deliveries; (ii) net profit in the period; (iii) the purchase of new equipment; (iv) the build-up of inventories; (v) the payment terms offered to our customers; (vi) the payment terms offered by our suppliers; (vii) the repayment of existing lines of credit and loans; and (viii) approval of the current or additional lines of credit and long-term loans from banks.

The lack of sufficient working capital could negatively impact our ability to compete effectively in the future. To the extent that we incur operating losses in the future or are unable to generate free cash flows from our business, we may not have sufficient working capital to fund our operations and will be required to obtain additional financing.

Cash Flows

The following table summarizes our cash flows for the periods presented:

Year ended December 31,	2021	2020	2019
	(\$ in thousands)		
Net cash provided by operating activities	3,875	3,252	2,578
Net cash used in investing activities	(1,647)	(1,140)	(806)
Net cash provided by (used in) financing activities	2,124	814	(1,132)
Effect of translation adjustments	196	181	(4)
Net increase in cash and cash equivalents	4,548	3,107	636
Cash and cash equivalents at beginning of year	4,735	1,628	992
Cash and cash equivalents at end of year	9,283	4,735	1,628

The changes in assets and liabilities reflected in the cash flow statement do not correspond exactly to the respective amounts in the balance sheets included with this annual report, mainly because our functional currency is the NIS and our reporting currency is the dollar.

Net cash provided by operating activities was \$3.9 million in the year ended December 31, 2021. This amount was primarily attributable to our pre-tax income of \$1.5 million, depreciation of fixed assets of \$1.8 million and a net increase in working capital items of \$0.6 million.

Net cash provided by operating activities was \$3.3 million in the year ended December 31, 2020. This amount was primarily attributable to our net profit of \$2.6 million, depreciation of fixed assets of \$1.6 million and an increase of \$448,000 in other liabilities and accrued expenses. This amount was partially offset by an increase in trade receivables of \$956,000, increase in other accounts receivables and prepaid expenses of \$556,000 and a decrease in trade payables of \$449,000.

Net cash provided by operating activities was \$2.6 million in the year ended December 31, 2019. This amount was primarily attributable to our net profit of \$1.8 million, depreciation of fixed assets of \$1.5 million and a decrease of \$598,000 in other accounts receivables and prepaid expenses. This amount was partially offset by an increase in trade receivables of \$1.3 million and a decrease in other liabilities and accrued expenses of \$529,000.

Net cash used in investing activities was \$1.6 million in the year ended December 31, 2021, compared to \$1.1 million in the year ended December 31, 2020 and compared to \$0.8 million in the year ended December 31, 2019. Net cash used in investing activities in each of the three years ended December 31, 2021 was primarily for the purchase of fixed assets for our production lines and leasehold improvements.

Net cash provided by financing activities was \$2.1 million in the year ended December 31, 2021, which was primarily attributable to the \$3.1 million of proceeds from long term loans. These amounts were partially offset by repayments of short-term credits.

Net cash provided by financing activities was \$814,000 in the year ended December 31, 2020, which was primarily attributable to the \$5.6 million of proceeds from a rights offering of our ordinary shares and proceeds from long term loans of \$1.1 million. These amounts were partially offset by a decrease of \$1.6 million in short-term credits and the repayment of short-term shareholder loans of \$3.7 million.

Net cash used in financing activities was \$1.1 million in the year ended December 31, 2019, which was primarily attributable to a decrease of \$4.2 million in short-term credits, the repayment of a long term loan of \$891,000 and the repayment of fixed asset payables of \$477,000. These amounts were partially offset by proceeds of \$3.3 million from a rights offering of our ordinary shares, an increase in short-term shareholders' loans of \$561,000 and proceeds from long term loans of \$558,000.

Capital expenditures on a cash basis for the years ended December 31, 2021, 2020 and 2019 were approximately \$1.5 million, \$1.1 million and \$0.8 million, respectively. In addition, purchases of fixed assets not yet paid as at December 31, 2021 amounted to \$221,000. Our capital expenditures in such periods mainly related to our investments in production and manufacturing equipment, and in leasehold improvements. We intend to finance our 2022 capital expenditures mainly with our cash balances, bank loans, suppliers' credit and operational cash flow; however, such financing may not be available, or, if available, may not be on terms favorable to us. Our principal commitments consist of obligations outstanding under our bank loans and credit facilities, suppliers' credit and operating leases.

We expect to finance our 2022 operations from our cash flow from operations, revolving bank credit lines and long-term bank loans and supplier financing. Although we anticipate that these capital resources will be adequate to satisfy our liquidity requirements through 2022, our liquidity could be negatively affected by the continuation of the Coronavirus outbreak, which could have an adverse effect on the global markets and on our operations, shortage in raw materials, continued operational difficulties in our manufacturing and a decrease in demand for our products, including the impact of changes in customer buying that may result from the general economic downturn, the stability of the dollar/NIS exchange rate, our results of operations, our suppliers' payment terms, our customers' demand for extending their payment terms and other factors detailed in Item 3D "Key Information - Risk Factors". If available liquidity is not sufficient to meet our operating and debt service obligations as they come due, we would need to pursue alternative financing arrangements or reduce expenditures to meet our cash requirements through 2022. Such additional financing may not be available to us or, if available, may not be obtained on terms favorable to us, and there is no assurance that we would be able to reduce discretionary spending to provide the required liquidity.

C. Research and Development, Patents and Licenses

During January 2021 we received approval for grants from the Israeli Investment Authority that will fund 15%-20% of our expected \$1.5 million investment in Advanced Manufacturing Equipment compatible with Industry 4.0 standards, which focuses on interconnectivity, automation, machine learning, and real-time data. In addition, we received final approval from the Israel Innovation Authority ("IIA") for a 50% participation in an approximately \$250,000 one-year development program, which started in March 2021. The total R&D program may be extended for a second year, subject to IIA approval. This R&D program is meant to enable Eltek to achieve a significantly faster production rate in certain stages of its manufacturing process, which will also drastically reduce scrap. There can be no assurance that the R&D program will succeed in achieving its goals or that all pre-defined benefits will be attained.

D. Trend Information

In recent years, we faced a reduced demand for our products. We include in our backlog all purchase orders scheduled for delivery within the next 12 months. Our backlog at December 31, 2021 was approximately \$10.0 million compared to a backlog of approximately \$6.8 million at December 31, 2020

E. Critical Accounting Estimates

The preparation of our consolidated financial statements and other financial information appearing in this Annual Report requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate on an on-going basis these estimates, mainly related to inventory, deferred tax assets and share based compensation expenses.

We base our estimates on our experience and on various assumptions that we believe are reasonable under the circumstances. The results of our estimates form the basis for our management's judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the financial information included in this annual report:

Inventory

We are required to state our inventories at the lower of cost or net realizable value. Cost is determined on the weighted average basis for raw materials. For work in progress and finished goods, the cost is determined based on calculation of accumulated actual direct and indirect costs. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation.

We periodically evaluate the inventory quantities on hand relative to historical and projected sales volumes, current and historical selling prices and contractual obligations to maintain certain levels of parts. Based on these evaluations, inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, excess inventories, market prices lower than cost and adjusted revenue forecasts. Any write-off is recognized in our consolidated statements of income as cost of revenues. In addition, if required, we record a liability for firm non-cancelable and unconditional purchase commitments with contract manufacturers for quantities in excess of our forecast of future demand consistent with our valuation of excess and obsolete inventory.

The process for evaluating these write-offs often requires us to make subjective judgments and estimates concerning future sales potential at which such inventory will be sold in the normal course of business. Incorrect estimates of future sales potential may cause actual results to differ from the estimates at the time such inventory is disposed of or sold. Given the significant assumptions required and the possibility that actual conditions will differ, we consider the valuations to be a critical accounting estimate.

Recently Issued Accounting Standards

See Note 2v to our 2021 consolidated financial statements.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Directors

Set forth below are the name, age, principal position and a biographical description of each of our directors:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Yitzhak Nissan (3)	72	Chairman of the Board of Directors
Mordechai Marmorstein (1)(2)	75	Director
David Rubner(4)	82	Director
Erez Meltzer(4)	64	Director
Gad Dovev(1)(2)(3)(4)	75	External Director
Ilana Lurie (1)(2)(3)(4)	49	External Director

(1) Member of the Audit Committee

(2) Member of the Compensation Committee

(3) Member of the Banking Committee

(4) Member of the Special Independent Committee for M&A purposes

At our 2021 annual general meeting of shareholders held on June 3, 2021, our shareholders re-elected Messrs. Yitzhak Nissan, Mordechai Marmorstein, David Rubner and Erez Meltzer to serve as a directors until our 2022 annual general meeting of shareholders. Mr. Gad Dovev was elected to serve as an external director for a third three-year term, at our 2020 meeting of shareholders held on October 29, 2020. Ms. Ilana Lurie was elected to serve as an external director for a second three-year term, at our 2021 meeting of shareholders held on June 3, 2021.

Yitzhak Nissan has served as our Chairman of the Board of Directors since November 2013, and is a member of our Banking Committee. From October 2014 to July 2018, Mr. Nissan also served as our Chief Executive Officer. Mr. Nissan is the founder of Nistec Group and has served as its chief executive officer since 1985. Mr. Nissan served as a member of ILTAM (Israeli Users' Association of Advanced Technologies in Hi-Tech Integrated Systems) Presidential Board between 2008 and 2009, and as a Presiding Member of the Israeli Association of Electronics and Software Industries since 2012. Mr. Nissan also established the VPs Operations Forum, which brings thought leadership to 200 VPs of operations from diverse hi-tech companies in Israel. In 2008, Mr. Nissan received the Distinguished Industry Award from the mayor of Petach Tikva Municipality. Mr. Nissan holds a BSc. degree in Electronic Engineering from the University of Buffalo, New York.

Dr. Mordechai Marmorstein has served on our Board of Directors since October 2013 and is a member of our audit and compensation committees. From 1992 to 2001, Dr. Marmorstein was the chief financial officer of Pazchim Co. Ltd. Dr. Marmorstein was also an internal auditor and accountant at Negev Phosphate Works. Dr. Marmorstein served as the chairman of Teshet (Tourist Enterprises and Aviation Services Co. Ltd.), a subsidiary of El-Al, the Israeli national airline, from 1999 to 2000. Dr. Marmorstein holds a B.A. degree in Economics, an M.A. degree in Contemporary Jewry Studies and a Ph.D. in Jewish History Studies, all from Bar-Ilan University.

David Rubner was elected to serve on our Board of Directors in October 2013. Mr. Rubner is the Chairman and Chief Executive Officer of Rubner Technology Ventures Ltd., and Chairman of the Board of Novelsat Ltd. Previously, he was Partner in Hyperion Israel Advisors Ltd., a venture capital firm. During the years 1991 to 2000, he was President and Chief Executive Officer of ECI Telecom Ltd. ("ECI"). Prior to that, Mr. Rubner held several senior positions within ECI. Before joining ECI, Mr. Rubner was a senior engineer in the Westinghouse Research Laboratories in Pittsburgh, Pennsylvania. Mr. Rubner served on the boards of Check Point Software Ltd., Radware Ltd., Telemessage International Ltd., Koor Industries Ltd., Lipman industries Ltd. and a number of private companies. He also serves on the boards of trustees and executive councils of Shaare Zedek Hospital and Jerusalem College of Technology. Mr. Rubner holds a B.Sc. (Hons) degree in engineering from Queen Mary College, University of London and an M.S. degree from Carnegie Mellon University. Mr. Rubner was awarded 14 U.S. Patents and was the recipient of the Israeli Industry Prize for 1995.

Erez Meltzer has served as a director since 2009 including as the Chairman of our Board of Directors from 2011 to 2013. Mr. Meltzer was the Executive Chairman of Hadassah Medical Center until the end of 2020. Mr. Meltzer also serves as a director of Ericom Software Ltd., Hadasit Bio Holding (HBL) Ltd., GEM Pharma Ltd., Nano-x Imaging Ltd., Plantis Pharma Ltd., Suplant Ltd., Tevel Aerobotics Technologies Ltd. and Rivulis Plastro Ltd.. From 2008 to 2013, Mr. Meltzer served as the Chief Executive Officer of Gadot Chemical Tankers & Terminals Ltd. From 2006 to 2007, Mr. Meltzer served as the Chief Executive Officer of Africa Israel Group. From 2002 to 2006, Mr. Meltzer served as the President and Chief Executive Officer of Netafim Ltd. From 1999 to 2001, Mr. Meltzer served as the President and Chief Executive Officer of CreoScitex. Mr. Meltzer served as a colonel in the Israeli Defense Forces – Armored Corps (reserve). Mr. Meltzer serves as the Chairman of the Lowenstein Hospital Friends Association since 1999, and is the honorary chairman of the Israeli Chapter of YPO (the Young Presidents Organization). Mr. Meltzer studied Economics and Business at the Hebrew University of Jerusalem and Boston University, and is a graduate of the Advanced Management Program at Harvard Business School.

Gad Dovev was re-elected to serve as an external director in October 2020 and is a member of our audit, compensation and banking committees. Mr. Dovev retired from the Israeli Ministry of Defense in August 2012. Mr. Dovev served as head of the Israeli Ministry of Defense Mission to the United States from August 2008 to August 2011. From August 2005 to August 2008, Mr. Dovev served as head of the Israeli Ministry of Defense Mission to Germany. Prior to that, from 2001 to 2005, Mr. Dovev acted as Deputy General Manager of the Israeli Ministry of Defense and Head of the Rehabilitation Department. From 1993 to 2001, Mr. Dovev served as Director of the Finance Department and the Financial Comptroller of the Israeli Ministry of Defense. Mr. Dovev served as member of the Board of Directors of Bank Otsar Hayal Ltd., IMI-Israel Military Industries Ltd., Shekem Ltd. and Gapim Ltd. Mr. Dovev holds a BSc. degree in Financial and Agricultural Administration from the Hebrew University of Jerusalem.

Ms. Ilana Lurie was elected to serve as an external director in September 2018 and is a member of our audit and compensation committees. Ilana Lurie is a CFO, COO & Director with vast experience in international finance and operations, within both large technology companies as well as Start-Ups. In a course of last 10 years, Ilana led significant financing rounds, as well as debt restructuring processes. Ms. Lurie played a critical role in transition from R&D to production in NovelSat and she is currently leading this activity in IO Tech, in her capacity as CFO & COO. During 2012- 2020, Ms. Lurie has been CFO of NovelSat, Landa Ventures portfolio company. Prior to her tenure at NovelSat, Ms. Lurie served as Finance Manager for the Enterprise Services business unit (formerly EDS) of Hewlett Packard (NYSE:HPQ). From 2006 to 2011, Ms. Lurie held several financial management positions at Ness Technologies (NASDAQ/TASE:NSTC), which, at the time, was a public company. Ms. Lurie earned her B.A. degree and an MBA degree with a specialization in Finance and Marketing from Hebrew University of Jerusalem.

Executive Officers

Set forth below are the name, age, principal position and a biographical description of each of our executive officers:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Eli Yaffe	67	Chief Executive Officer
Ron Freund	57	Chief Financial Officer
Yitzhak Zemach	46	Director of Operations
Oriel Sallary	59	VP Sales and Marketing
Sagi Balter	41	VP Process Engineering
Shmuel Meidan	61	VP Quality Assurance

Eli Yaffe joined us in July 2018 as our Chief Executive Officer. Prior to joining our company, Mr. Yaffe was the President of Carmel Forge Ltd. (Aerospace) for almost 16 years since mid-1996. Prior thereto Mr. Yaffe served as the President of Urdan Industries Ltd. (Defense). Previously, Mr. Yaffe served as VP of Business Development & Strategic Planning, responsible for strategy, M&A, and business development at Ormat Industries Ltd., including 5 years in the USA. Mr. Yaffe holds a B.Sc. degree (with distinction) from the Technion- Israel Institute of Technology, M.Sc. degree in Mechanical Engineering from Tel Aviv University and an MBA degree (with distinction) in Finance & Marketing from Bar Ilan University.

Ron Freund joined us in January 2022 as our Chief Financial Officer. Mr. Freund served as the CFO of Ophir Tours Ltd. from 2015 to 2021. From 2011 to 2014, Mr. Freund served as the CFO of Middle East Tube Company Ltd., an Israeli public company, traded on the Tel Aviv Stock Exchange (TASE). In previous roles, Mr. Freund served as Deputy CEO and CFO of Soltam Systems LTD. and as a Senior Partner at Ernst & Young Israel. Mr. Freund holds a B.A. degree in Accounting and Economics from the Hebrew University, Jerusalem, and is a licensed CPA (Israel).

Yitzhak Zemach joined us in September 2019 as Director of Operations. Previously, Mr. Zemach served as the Plant Manager of Kahane Group Ltd. from February 2011 to September 2018 and prior thereto he served as the VP Operations of Bental Electronics Systems Ltd. Previously, Mr. Zemach served as Plant Manager of Aladdin Knowledge Systems and prior thereto he served as the Production Manager of the Nistec group. Mr. Zemach holds a B.Sc. degree in Electronic Engineering from Ariel University and an MBA degree with distinction in IT from Bar Ilan University.

Oriel Sallary joined us in May 2020 as Vice President of Worldwide Sales and Marketing. Mr. Sallary has over 25 years of sales experience in the semiconductor industry. Mr. Sallary served as VP Sales and Marketing at Tritech Ltd. a distribution company in Israel from 2010 to April 2020. Previously, Mr. Sallary held various positions including VP Sales and Marketing, senior account executive, sales director at Tritech Ltd. Mr. Sallary holds a bachelor's degree in Business Administration from Ruppin Academic Center and Electronic Engineering from ORT Singalovski College.

Sagi Balter joined us in December 2015 as our electroplating process engineer and became our VP Process Engineering in September 2019. Previously, Mr. Balter served as the senior researcher in the surface physics laboratory of the Weizmann Institute from 2013 to 2015. Prior thereto, he served as a R&D engineer at American Aviation Ltd from 2009 to 2014. Mr. Balter holds a Ph.D. degree in Chemistry from the Bar-Ilan University.

Shmuel Meidan joined us in March 2020 as our VP Quality Assurance. Previously, from 2013 to March 2020, Mr. Meidan served as the Chief Quality Manager of EPS Technology Ltd., a provider of computers and electronic systems to the defense and industrial markets. Prior thereto, he served as a Quality Manager at Elbit Systems ELOP Ltd. (NASDAQ:ESLT), a developer and supplier of airborne, land and naval systems for defense, from 2001 to 2013. Mr. Meidan holds a B.Sc.T.E degree in Mechanical Engineering from Tel Aviv University and graduate B.Sc.T.E in technological educational from Tel-Aviv University.

There are no family relationships between any of our directors and executive officers.

B. Compensation

The following table sets forth all compensation we paid with respect to all of our directors and executive officers as a group for the year ended December 31, 2021.

	Salaries, fees, commissions and bonuses	Pension, retirement and similar benefits
All directors and executive officers as a group (consisting of 12 persons)	\$1.7 million (1)(3)	\$407,000(2)(3)

- (1) During the year ended December 31, 2021, we paid each of our directors an annual fee of approximately \$9,100 and an attendance fee of \$290 per meeting. These fees are included in the above amount.
- (2) The benefits amount includes expenses for automobiles and other benefits that we provide to certain of our executive officers.
- (3) The amounts indicated above include payments made to the Company's former CFO, Mt. Alon Mualem, which resigned effective January 1, 2022.

As of December 31, 2021, options to purchase 359,074 ordinary shares granted to our current directors and executive officers were outstanding under our equity incentive plans at a weighted average exercise price of \$5.16 per share.

For as long as we qualify as a foreign private issuer, we are not required to comply with the proxy rules applicable to U.S. domestic companies, including the requirement to disclose information concerning the amount and type of compensation paid to the chief executive officer, chief financial officer and the three other most highly compensated executive officers, rather than on an aggregate basis. Nevertheless, a recent amendment to the regulations promulgated under the Israeli Companies Law requires us to disclose the annual compensation of our five most highly compensated officers (or all the named executive officers if there are less than five) on an individual basis, rather than on an aggregate basis, as was previously permitted for Israeli public companies listed overseas. Under the regulations, this disclosure is required to be included in the notice of our annual meeting of shareholders each year or in a public document that accompanies such notice, which we furnish to the SEC under cover of a Report of Foreign Private Issuer on Form 6-K. The Israeli Companies Law regulations permit us to refer to a report filed pursuant to the laws of the country in which our shares are listed for trading that includes the required information in lieu of its inclusion in the notice of annual meeting. Because of that disclosure requirement under Israeli law, we are including such information in this annual report, pursuant to the disclosure requirements of Form 20-F.

The table below reflects the compensation granted to our five most highly compensated office holders during or with respect to the year ended December 31, 2021. All amounts reported in the table reflect the cost to the company, as recognized in our financial statements for the year ended December 31, 2021.

Name of Officer	Position of Officer	Compensation for services (USD) ⁽¹⁾			Total compensation
		Base salary	Benefits and Perquisites ⁽²⁾	Equity-Based ⁽³⁾	
Yitzhak Nissan ⁽⁴⁾	Chairman of the Board	334,345	-	-	334,345
Eli Yaffe	Chief Executive Officer	312,737	287,381	87,354	687,472
Alon Mualem ⁽⁵⁾	Chief Financial Officer	143,088	106,797	14,035	263,920
Yitzhak Zemach	VP Operations	134,847	93,061	18,209	246,117
Oriel Sallary	Vice President of Worldwide Sales and Marketing	123,178	65,927	2,216	191,321

- (1) Cash compensation amounts denominated in NIS were converted into U.S. dollars at the rate of NIS 3.23 per \$1.00 (the average exchange rate in 2021).
- (2) Amounts reported in this column include benefits and perquisites, including those mandated by applicable law. Such benefits and perquisites may include, to the extent applicable, bonuses, car related expenses, managers' insurance and pension funds, payments to the National Insurance Institute, advanced education funds, medical insurance, vacation allowance and other customary benefits. Bonuses represent accrued but not yet paid bonus payments for 2021, based on several criteria, including revenues, profit, employees' safety, yield and on time deliveries.
- (3) Represents the equity-based compensation expenses recorded in the company's consolidated financial statements for the year ended December 31, 2021 based on the options' grant date fair value in accordance with accounting guidance for equity-based compensation.
- (4) Paid to Nistec as management fees.
- (5) Mr. Mualem resigned as our CFO effective January 1, 2022.

C. Board Practices

Introduction

According to the Israeli Companies Law, the role of the board of directors is to formulate a company's policy and to supervise the chief executive officer's exercise of his roles and operations. According to our articles of association, our chief executive officer has the power to appoint our other executive officers who, together with our chief executive officer, are responsible for our day-to-day management. The board of directors may exercise any power of the company which was not assigned to another organ of the company by law or by the articles of association. The executive officers have individual duties as determined by our chief executive officer and board of directors.

Election of Directors

Our articles of association provide for a board of directors consisting of no less than three and no more than nine members or such other number as may be determined from time to time at a general meeting of shareholders. Our board of directors is currently composed of seven directors.

Generally, at each annual meeting of shareholders, directors are elected by a vote of the holders of a majority of the voting power represented and voting at such meeting. All the members of our board of directors (except the external directors as detailed below) may be reelected upon completion of their term of office. Directors (other than external directors) may be removed earlier from office by a resolution passed at a general meeting of our shareholders. Our board of directors may temporarily fill vacancies in the board or add to their body until the next annual meeting of shareholders, provided that the total number of directors will not exceed the maximum number permitted under our articles of association.

The board of directors of an Israeli public company is required to determine that at least one or more directors will have "accounting and financial expertise," as defined by Israeli Companies Law regulations. Our board of directors determined, accordingly, that at least one director must have "accounting and financial expertise." Our board of directors has further determined that our external director, Mr. Gad Dovev, has the requisite "accounting and financial expertise."

We do not follow the requirements of the NASDAQ Stock Market Rules with regard to the nomination process of directors, and instead, we follow Israeli law and practice, in accordance with which our board of directors is authorized to recommend to our shareholders director nominees for election. See Item 16G. "Corporate Governance."

Board Diversity

While we do not have a formal policy on diversity, our Board considers diversity to include the skill set, background, reputation, type and length of business experience of our board members, as well as a particular nominee's contribution to that mix. Although there are many other factors, the Board seeks individuals with experience in the defense industry, sales and marketing, legal and accounting skills and board experience.

Nasdaq's Board Diversity Rule requires companies listed on Nasdaq to (i) publicly disclose board-level diversity statistics using a standardized template; and (ii) have, or explain why they do not have, at least two diverse directors. Under the new rule the required disclosure must generally be provided by Nasdaq-listed companies by August 8, 2022. The rule also provides additional flexibility for smaller reporting companies, which can meet the diversity objective by including two female directors, and for all companies with five or fewer directors, which can meet the diversity objective by including one diverse director. Foreign issuers, including foreign private issuers and foreign issuers with principal executive offices located outside the U.S., like our company, must have, or explain why they do not have, at least two board members who are female or have (i) one female director and (ii) one director is LGBTQ+ or an "underrepresented individual" in their home country jurisdiction (i.e., Israel).

The Board Diversity Rule is currently being challenged under constitutional grounds in the U.S. and may be subject to changes.

External and Independent Directors

External directors. Under the Israeli Companies Law, Israeli companies whose shares have been offered to the public are required to appoint at least two external directors. A person may not be appointed as an external director if (i) the person is a relative of a controlling shareholder; (ii) the person, or the person's relative, partner, employer or an entity under that person's control, has or had during the two years preceding the date of appointment any affiliation with the company, or the controlling shareholder or its relative; (iii) in a company that does not have a controlling shareholder, such person has an affiliation (as such term is defined in the Israeli Companies Law), at the time of his appointment, to the chairman of the board of directors, chief executive officer, a shareholder holding at least 5% of the share capital of the company or the chief financial officer; (iv) such person is an employee of the Israeli Securities Authority or an Israeli stock exchange; and (v) such person's relative, partner, employer, supervisor, or an entity he controls, has other than negligible business or professional relations with any of the persons mentioned in subsection (ii) above, even if such relations are not maintained on a regular basis. The term "relative" means a spouse, sibling, parent, grandparent, child or child, sibling or parent of spouse or spouse of any of the above. The term "affiliation" includes an employment relationship, a material business or professional relationship maintained on a regular and continuous basis, control and service as an office holder excluding service as an external director of a company that is offering its shares to the public for the first time. In addition, no person may serve as an external director if the person's position or other activities create or may create a conflict of interest with the person's responsibilities as director or may otherwise interfere with the person's ability to serve as director. If, at the time an external director is appointed all members of the board of directors who are not the controlling shareholders or their relatives, are of the same gender, then that external director must be of the other gender. A director of one company may not be appointed as an external director of another company if a director of the other company is acting as an external director of the first company at such time.

At least one of the external directors elected must have "accounting and financial expertise" and any other external director must have "accounting and financial expertise" or "professional qualification," as such terms are defined by Israeli Companies Law regulations. We have determined that our external directors, Mr. Gad Dovev and Ms. Ilana Lurie, have the requisite "accounting and financial expertise."

External directors are elected by shareholders. The shareholders voting in favor of their election must include at least a majority of the shares of the non-controlling shareholders (and those who do not have a personal interest in the matter as a result of their relationship with the controlling shareholders) of the company voting on the matter (not including abstaining votes). This majority approval requirement need not be met if the total shareholdings of those non-controlling shareholders (and those who do not have a personal interest in the matter as a result of their relationship with the controlling shareholders) voting against their election represent 2% or less of all of the voting rights in the company.

External directors serve for a three-year term, which may be renewed for two additional three year periods through one of the following mechanisms:

- (i) the board of directors proposed the nominee and his appointment was approved by the shareholders in the manner required to appoint external directors for their initial term;
- (ii) a shareholder holding 1% or more of the voting rights proposed the nominee, and the nominee is approved by a majority of the votes cast by the shareholders of the company on the matter, excluding the votes of controlling shareholders and those who have a personal interest in the matter as a result of their relationship with any controlling shareholder and excluding abstentions, provided that the aggregate votes cast by shareholders who are not controlling shareholders and do not have a personal interest in the matter as a result of their relationship with the controlling shareholders voted in favor of the reelection of the nominee constitute more than 2% of the voting rights in the company, and provided further that at the time of such nomination or in the two years preceding such nomination, such external director or his relative are neither the shareholder who proposed such nomination, or a shareholder holding 5% or more of the company's issued share capital or voting power, in each case who, or whose controlling shareholder or any entity controlled by them (i) has business relations with the company, or (ii) is a competitor of the company; or
- (iii) such external director nominates himself or herself for each such additional term and his or her election is approved at a shareholders meeting by the same disinterested majority as required for the election of an external director nominated by a 1% or more shareholder (as described above).

External directors cannot be dismissed from office unless: (i) the board of directors determines that the external director no longer meets the statutory requirements for holding the office, or that the external director has breached the external director's fiduciary duties and the shareholders vote, by the same majority required for the appointment, to remove the external director after the external director has been given the opportunity to present his or her position; (ii) a court determines, upon a request of a director or a shareholder, that the external director no longer meets the statutory requirements of an external director or that the external director has breached his or her fiduciary duties to the company; or (iii) a court determines, upon a request of the company or a director, shareholder or creditor of the company, that the external director is unable to fulfill his or her duty or has been convicted of specified crimes. Each committee that is authorized to exercise powers that are usually vested in the board of directors must include at least one external director and the audit committee and compensation committee must each include all of the external directors. An external director is entitled to compensation as provided pursuant to Israeli Companies Law regulations and is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with such service.

Our shareholders elected Ms. Ilana Lurie to serve as an external director, effective September 6, 2018, for a three-year term. At the 2020 annual general meeting of shareholders, Mr. Gad Dovev was re-elected, for a third three-year term, to serve as an external director.

Independent Directors. In general, NASDAQ Stock Market Rules require that the board of directors of a NASDAQ-listed company have a majority of independent directors and its audit committee must have at least three members and be comprised only of independent directors, each of whom satisfies the respective "independence" requirements of NASDAQ and the SEC. As permitted by NASDAQ home country rules, we do not maintain a majority of independent directors on our Board, but instead we choose to follow Israeli law and practice which requires that we appoint at least two external directors, as discussed above. Our Audit Committee however is comprised of three directors, all of whom are independent directors under the requirements of the Israeli Companies Law, the NASDAQ and the SEC rules.

Chairman of the Board

Our articles of association provide that the chairman of the board is appointed by the members of the board of directors. The chief executive officer (referred to as a "general manager" under the Israeli Companies Law) or a relative of the chief executive officer may not serve as the chairman of the board of directors, and the chairman or a relative of the chairman may not be vested with authorities of the Chief Executive Officer without shareholder approval consisting of a majority vote of the shares present and voting at a shareholders meeting, provided that either (i) such majority includes at least two-thirds of the shares held by all shareholders who are not controlling shareholders and do not have a personal interest in such appointment, present and voting at such meeting; or (ii) the total number of shares of non-controlling shareholders and shareholders who do not have a personal interest in such appointment voting against such appointment does not exceed two percent of the aggregate voting rights in the company. Abstaining shareholders shall not be counted as part of the non-controlling shareholders, or shareholders with no personal interest.

In addition, a person subordinated, directly or indirectly, to the Chief Executive Officer may not serve as the chairman of the board of directors; the chairman of the board may not be vested with authorities that are granted to those subordinated to the Chief Executive Officer; and the chairman of the board may not serve in any other position in the company or a controlled company, but he may serve as a director or chairman of a subsidiary.

On December 29, 2016, our shareholders approved that our Chairman of the Board would also serve as our Chief Executive Officer. In July 2018, Mr. Eli Yaffe was appointed Chief Executive Officer and Mr. Nissan continues to serve as the Chairman of the Board of Directors of our company.

Committees of the Board of Directors

Audit Committee

Under the Israeli Companies Law, the board of directors of any public company must establish an audit committee. The audit committee must consist of at least three directors, must include all of the external directors and must have a majority of independent directors.

The audit committee may not include the chairman of the board of directors, the controlling shareholder (or any of the controlling shareholder's relatives), any director employed by the company or by its controlling shareholder or by an entity controlled by the controlling shareholder, any director who regularly provides services to the company or to its controlling shareholder or to an entity controlled by the controlling shareholder, and any director who derives most of his or her income from the controlling shareholder. The chairman of the audit committee must be an external director. A majority of the members of the audit committee constitutes a quorum, provided that the majority of the members present at the meeting are independent directors (within the meaning of the Israeli Companies Law) and at least one external director is present at the meeting.

In addition, the NASDAQ Stock Market Rules require us to establish an audit committee comprised of at least three members, all of whom must be independent directors, each of whom is financially literate and satisfies the respective "independence" requirements of the SEC and NASDAQ and one of whom has accounting or related financial management expertise at senior levels within a company.

Our audit committee meets at least once each quarter. Under the Israeli Companies Law, the roles of the audit committee are (i) to identify deficiencies in the management of our business, including in consultation with the internal auditor and our independent auditors, and to suggest appropriate courses of action to amend such deficiencies; (ii) to define whether certain acts and transactions that involve conflicts of interest are material or and to define whether transactions that involve interested parties are extraordinary or not, and to approve such transactions (which may be approved according to certain criteria set out by our audit committee on an annual basis); (iii) to establish procedures to be followed in respect of related party transactions with a controlling shareholder (where such are not extraordinary transactions), which may include, where applicable, the establishment of a competitive process for such transaction, under the supervision of the audit committee, or individual, or other committee or body selected by the audit committee, in accordance with criteria determined by the audit committee; (iv) to determine whether to approve related party transactions, that are subject to the audit committee's approval according to the Israeli Companies Law; (v) to determine procedures for approving certain related party transactions with a controlling shareholder, which having been determined by the audit committee not to be extraordinary transactions, were also determined by the audit committee not to be negligible transactions; (vi) in companies where the internal auditor's work plan is subject to Board of Directors approval, to examine and propose revisions to the internal auditor's work plan before it is presented to the Board of Directors; (vii) to examine the performance of our internal auditor and whether he is provided with the required resources and tools necessary for him to fulfill his role, considering, among others, the company's size and special needs, and to review his annual plan and approve it should the company's articles of association require the approval of the Board for such plan; (viii) to oversee and approve the retention, performance and compensation of our independent auditors and to establish and oversee the implementation of procedures concerning our systems of internal accounting and auditing control; and (ix) to set procedures for handling of complaints made by company's employees in connection with management deficiencies and the protection to be provided to such employees.

The audit committee may consult from time to time with our independent auditors and internal auditor with respect to matters involving financial reporting and internal accounting controls.

In the event the audit committee has discovered a material deficiency in the company's business operations, it must hold at least one meeting regarding such deficiency, at which the internal auditor or the independent accountants must be present and in which office holders who are not members of the audit committee may not participate, except for the presentation of their position.

Our audit committee consists of three members of our board of directors who satisfy the respective requirements of the SEC, NASDAQ and Israeli law for the composition of the audit committee. Our audit committee is currently composed of Messrs. Dovev (Chairman), Marmorstein and Ms. Lurie.

Compensation Committee

Effective December 2012, Israeli law requires our Board of Directors to appoint a compensation committee which must be comprised of at least three directors, including all of the external directors, which shall be a majority of the members of the compensation committee and one of whom must serve as chairman of the committee. However, subject to certain exceptions, Israeli companies whose securities are traded on stock exchanges such as NASDAQ, and who do not have a controlling party, do not have to meet this majority requirement; provided, however, that the compensation committee meets other Israeli Companies Law composition requirements, as well as the requirements of the non-Israeli jurisdiction where the company's securities are traded. Other than the external directors, the rest of the members of the compensation committee shall be directors who will compensation for their role as directors only in accordance with Israeli Companies Law regulations applicable to the compensation of external directors, or amounts paid pursuant to indemnification and/or exculpation contracts or commitments and insurance coverage.

On December 5, 2019, our shareholders approved an amended compensation policy for our company. The compensation policy must be approved every three years by our compensation committee, board of directors and shareholders, voting with a special majority (in that order). The compensation policy is based on and references certain matters and provisions set forth in the Israeli Companies Law, which include: (i) promoting our company's goals, work plan and policy with a long-term view; (ii) creating appropriate incentives for our company's office holders, considering, among other things, our company's risk management policy; (iii) our company's size and nature of operations; and (iv) with respect to variable elements of compensation (such as annual cash bonuses), the office holder's contribution to achieving company objectives and maximization of our company's profits, with a long-term view and in accordance with his or her position.

Our compensation committee is currently composed of Ms. Lurie and Messrs. Dovev and Marmorstein.

Banking Committee

In March 2014, our Board of Directors established a banking committee, which was authorized to adopt resolutions on behalf of the Board of Directors in respect of banking activities, including opening of new accounts and signing credit agreements of up to \$9 million. Our banking committee is currently composed of Mr. Nissan and Mr. Dovev.

Special Independent Committee for M&A purposes

In November 2017, our Board of Directors established a Special Independent Committee, separate and independent from our controlling shareholder, Mr. Nissan. The Special Independent Committee received the Board's mandate to examine and review any issue that may arise with respect to a possible consummation of an M&A transaction, at the Special Independent Committee's sole discretion, including, among other things, the authority to retain and consult with financial and legal advisors, negotiate such transaction and recommend to our Board of Directors, which retains the authority on the decision of final execution of such agreement. For the avoidance of any doubt, the Special Independent Committee may determine that the company will not be party to an M&A Transaction. The Special Independent Committee is currently composed of Mr. Dovev, Ms. Lurie, Mr. Rubner and Mr. Meltzer.

Internal Audit

The Israeli Companies Law requires the Board of Directors of a public company to appoint an internal auditor nominated by the audit committee. The internal auditor must meet certain statutory requirements of independence. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business practice. In March 2016, we appointed Mr. Doron Cohen of Fahn Kanne as our internal auditor.

Directors' Service Contracts

There are no arrangements or understandings between us and any of our subsidiaries, on the one hand, and any of our directors, on the other hand, providing for benefits upon termination of their employment or service as directors of our company or any of our subsidiaries. We note that the vesting of options granted to directors, as described below, will stop at termination of their service to the Company.

Exculpation, Indemnification and Insurance of Directors and Officers

Exculpation of Office Holders

The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an office holder from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care with respect to distributions.

Our articles of association allow us to exculpate any office holder from his or her liability to us for breach of duty of care, to the maximum extent permitted by law, before or after the occurrence giving rise to such liability. We provided an exemption letter, in the form approved by the Company's shareholders on October 17, 2013 to each of our directors and officers, and agreed to provide the same to our future office holders.

Insurance of Office Holders

The Israeli Companies Law provides that a company may, if permitted by its articles of association, enter into a contract to insure office holders in respect of liabilities incurred by the office holder with respect to an act or omission performed in his or her capacity as an office holder, as a result of: (i) a breach of the office holder's duty of care to the company or to another person; (ii) a breach of the office holder's duty of loyalty to the company, provided that the office holder acted in good faith and had reasonable grounds to assume that his or her act would not prejudice the company's interests; and (iii) a monetary liability imposed upon the office holder in favor of another person.

Our articles of association provide that, subject to any restrictions imposed by applicable law, we may procure, and/or undertake to procure, insurance covering any past or present or future office holder against any liability which he or she may incur in such capacity, including insurance covering us for indemnifying such office holder, to the maximum extent permitted by law.

Without derogating from the above, we may enter into a contract to insure the liability of an office holder for an obligation imposed on such office holder in consequence of an act or omission done in such office holder's capacity as an office holder, in the following case: (i) expenses, including reasonable litigation expenses and legal fees, incurred by the office holder as a result of a proceeding instituted against such office holder in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law, 5728-1968 (as amended), or the "Israeli Securities Law", or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Israeli Securities Law or (C) infringements pursuant to the provisions of Chapter P'1 under the Israeli Securities Law; and (ii) payments made to the injured parties of such infringement under Section 52ND(a)(1)(a) of the Israeli Securities Law.

On October 29, 2020, our shareholders approved the D&O Policy described in Exhibit 99.1 to our Report of Foreign Issuer on Form 6-K filed on September 23, 2020, including the order of payment, for the benefit of the directors and officers of the Company (excluding its controlling shareholder), currently serving and as may serve from time to time.

Indemnification of Office Holders

The Israeli Companies Law provides that a company may, if permitted by its articles of association, indemnify an office holder for liabilities or expenses imposed on him or her, or incurred by him or her concerning acts or omissions performed by the office holder in such capacity for: (i) a monetary liability imposed on the office holder in favor of another person by any judgment, including a settlement or an arbitrator's award approved by a court; (ii) reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him or her by a competent authority, provided that such investigation or proceeding concluded without the filing of an indictment against the office holder or the imposition of any monetary liability in lieu of criminal proceedings, or concluded without an indictment against the office holder but with the imposition of a monetary liability on the office holder in lieu of criminal proceedings with respect to a criminal offense that does not require proof of criminal intent; and (iii) reasonable litigation expenses, including attorneys' fees, incurred by the office holder or which were imposed on him or her by a court, in an action instituted by the company or on the company's behalf, or by another person, against the office holder, or in a criminal charge from which the office holder was acquitted, or in a criminal proceeding in which the office holder was convicted of a criminal offense which does not require proof of criminal intent.

The Israeli Companies Law provides that a company's articles of association may permit the company to indemnify an office holder following a determination to this effect made by the company after the occurrence of the event in respect of which the office holder will be indemnified. It also provides that a company's articles of association may permit the company to undertake in advance to indemnify an office holder, except that with respect to a monetary liability imposed on the office holder by any judgment, settlement or court-approved arbitration award, the undertaking must be limited to types of events which the company's board of directors deems foreseeable considering the company's actual operations at the time of the undertaking, and to an amount or standard that the board of directors has determined as reasonable under the circumstances.

Our articles of association provide that we may indemnify an office holder retroactively for certain obligations or expenses imposed on such office holder in consequence of an act or omission done in such office holder's capacity as an officer in our company. These obligations and expenses include:

- i. a monetary obligation imposed on the office holder in favor of another person pursuant to a judgment, including a judgment given in settlement or an arbitrator's award that has been approved by a court;
- ii. reasonable litigation expenses, including advocates' professional fees, incurred by the office holder pursuant to an investigation or a proceeding commenced against the office holder by a competent authority and that was terminated without an indictment and without having a monetary charge imposed on the office holder in exchange for a criminal procedure (as such terms are defined in the Israeli Companies Law), or that was terminated without an indictment but with a monetary charge imposed on the office holder in exchange for a criminal procedure in a crime that does not require proof of criminal intent or in connection with a financial sanction;
- iii. reasonable litigation expenses, including advocates' professional fees, incurred by the office holder or which the office holder is ordered to pay by a court, in proceedings filed against the office holder by the company or on its behalf or by another person, or in a criminal indictment in which the office holder is acquitted, or in a criminal indictment in which the office holder is convicted of an offence that does not require proof of criminal intent;
- iv. expenses, including reasonable litigation expenses and legal fees, incurred by an office holder as a result of a proceeding instituted against such office holder in relation to (A) infringements that may result in imposition of financial sanction pursuant to the provisions of Chapter H'3 under the Israeli Securities Law or (B) administrative infringements pursuant to the provisions of Chapter H'4 under the Israeli Securities Law or (C) infringements pursuant to the provisions of Chapter I'1 under the Israeli Securities Law; and
- v. payments to an injured party of infringement under Section 52ND(a)(1)(a) of the Israeli Securities Law.

Our articles of association also provide that we may undertake to indemnify in advance an office holder, in accordance with the conditions set under applicable law, in respect of the obligations or expenses specified in (i)-(v) above, provided that such undertaking is limited to types of events which in the board of directors' opinion may be anticipated, in light of our company's activities, at the time of granting the indemnity undertaking, and to an amount or criteria which the board of directors determines is reasonable in the circumstances of the case, both of which are to be specified in the indemnification undertaking.

According to our compensation policy, the total amount of indemnification that our company undertakes towards all persons whom it has resolved to indemnify, jointly and in the aggregate, shall not exceed an amount equal (i) 25% of the net equity of our company according to the audited or reviewed financial statement known at the time the request for indemnification was submitted; or (ii) \$3,000,000, whichever is greater.

On December 5, 2019, our shareholders approved an updated indemnification agreement which was entered into with our directors and officers.

Limitations on Exculpation, Insurance and Indemnification

The Israeli Companies Law provides that neither a provision of the articles of association permitting the company to enter into a contract to insure the liability of an office holder, nor a provision in the articles of association or a resolution of the board of directors permitting the indemnification of an office holder, nor a provision in the articles of association exempting an office holder from duty to the company shall be valid, where such insurance, indemnification or exemption relates to any of the following: (i) a breach by the office holder of his duty of loyalty, except with respect to insurance coverage or indemnification if the office holder acted in good faith and had reasonable grounds to assume that the act would not prejudice the company; (ii) a breach by the office holder of his duty of care if such breach was committed intentionally or recklessly, unless the breach was committed only negligently; (iii) any act or omission committed with intent to derive an unlawful personal gain; and (iv) any fine or forfeiture imposed on the office holder.

Under the Israeli Companies Law, exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, an office holder (other than the chief executive officer) must be approved by the company's compensation committee and board of directors and, if such office holder is a director, also by the company's shareholders. Exculpation of, procurement of insurance coverage for, and an undertaking to indemnify or indemnification of, the chief executive officer must be approved by the company's compensation committee, board of directors and by a special majority of the shareholders.

We have agreed to indemnify our office holders for certain liabilities and expenses that may be imposed on them due to acts performed, or failures to act, in their capacity as office holders, including financial liabilities imposed by judgments or settlements in favor of third parties, and reasonable litigation expenses imposed by a court in relation to criminal charges from which the indemnitee was acquitted or criminal proceedings in which the indemnitee was convicted of an offense that does not require proof of criminal intent, all subject to Israeli law and certain limitations in the agreements. The aggregate amount we may pay our office holders pursuant to our indemnification undertaking may not exceed, jointly and in the aggregate, \$2 million but in any event not more than 25% of our company's net equity. We currently maintain directors and officers liability insurance with a per claim and aggregate coverage limit of \$10 million. Under our current directors and officers liability insurance policy, losses will be paid in accordance with the following order of priority: first, on behalf of officers and directors, for all loss that they will be obligated to pay as a result of a claim made against them; thereafter, on our behalf, for all loss that an officer or director will be obligated to pay as a result of a claim made against them, to the extent that we are required or permitted by law to indemnify our officers and directors; and thereafter, on our behalf, for all loss that we will be obligated to pay as a result of a securities claim made against us.

D. Employees

We consider our employees the most valuable asset of our company. We offer competitive compensation and comprehensive benefits to attract and retain our employees. We believe that an engaged workforce is key to maintaining our ability to innovate.

We are committed to providing a safe work environment for our employees in compliance with applicable regulations. We have taken necessary precautions in response to the recent COVID-19 outbreak, including offering employees flexibility to work from home and mandatory social distancing requirements in the workplace.

As of December 31, 2021, we employed 260 full-time employees in Israel, of which 190 were employed in manufacturing services, 21 in process and product engineering, 23 in quality assurance and control, 10 in sales and marketing and 16 in finance, accounting, information service and administration.

As of December 31, 2020, we employed 285 full-time employees in Israel, of which 202 were employed in manufacturing services, 38 in process and product engineering, 20 in quality assurance and control, 11 in sales and marketing and 14 in finance, accounting, information service and administration.

As of December 31, 2019, we employed 283 full-time employees in Israel, of which 217 were employed in manufacturing services, 24 in process and product engineering, 15 in quality assurance and control, 12 in sales and marketing and 15 in finance, accounting, information service and administration.

In addition, Eltek USA, a wholly-owned Delaware subsidiary, employed 4 full-time employees as of December 31, 2021, as compared to 3 full-time employees as of December 31, 2020, and 2019.

Our relationships with our employees in Israel are governed by Israeli labor law, extension orders of the Israeli Ministry of Economy and Industry and personal employment agreements. We are subject to various Israeli labor laws, general collective bargaining agreements entered into, from time to time, between the Histadrut and the Manufacturers Association, as well as specific and local agreements and arrangements. Such laws, agreements, and arrangements cover the wages and employment conditions of our employees, including length of the workday, minimum daily wages for professional workers, contribution to pension fund, insurance for work related accidents, procedures for dismissing employees, determination of severance pay, benefit programs and annual leave. We generally provide our Israeli employees with benefits and working conditions beyond the minimums required by law.

In the past, our employees have attempted to establish an employees' union committee, which was later terminated.

Certain of our officers, key employees and other employees are party to individual employment agreements. We have entered into a non-disclosure and non-competition agreement with some of our executive officers. All of our officers and employees are subject to confidential and proprietary information provisions set forth in our Code of Business Conduct and Ethics.

Pursuant to Israeli law, we are legally required to pay severance benefits upon certain circumstances, including the retirement or death of an employee or the termination of employment of an employee without due cause, equivalent to a one month salary for each year of employment with the company. Most of our employees are covered by pension plans providing customary benefits including retirement and severance benefits. Some of our employees are covered by life and pension insurance policies providing similar benefits. We contribute 8.33% of base salaries to the employees' pension funds or life pension insurance policies to cover our liability for severance pay. Pursuant to Section 14 of the Israeli Severance Pay Law, 5729-1963, if a company contributes to an employee's pension fund or severance fund, then the employee is entitled only to the severance amounts accumulated in such fund(s) upon resignation from the company or termination by the company, and the company is not obligated to make additional payments to the employee upon termination of employment with the company.

With respect to pension benefits, we contribute between 6.5% to 7.5% of base salaries to the employees' pension plans and 7.5% to those employees who have life insurance policies. The employees who have pension plans contribute between 6% to 7% of base salaries to their pension plans, and the employees who have life insurance policies contribute 6% of their base salaries to their policies. In addition, we contribute 8.33% for severance pay into the employees' life insurance policies, pension plans or similar funds of their choice.

We also contribute between 1% to 7.5% of base salaries to certain "professional advancement" funds for managers, engineers and certain others and such employees have to match one third of such contribution, up to 2.5% of their base salaries.

Israeli employers and employees are required to pay predetermined sums to the National Insurance Institute of Israel, which is similar to the United States Social Security Administration. Subject to minimum thresholds, the employer contribution to the National Insurance Institute is at the rate of 7.6% of the salary (same in 2020) and the employee contribution to the National Insurance Institute is at the rate of 12% of the salary (of which 5% relates to payments for national health insurance), both of which are limited to a maximum monthly salary of NIS 44,020 (approximately \$13,800) in 2021, and NIS 43,370 (approximately \$12,600) in 2020 and 2019. In the year ended December 31, 2021, our aggregate payments as an employer to the National Insurance Institute amounted to approximately 5.3% of the salaries.

E. Share Ownership

Beneficial Ownership of Executive Officers and Directors

The following table sets forth certain information as of March 16, 2021 regarding the beneficial ownership of our ordinary shares by our directors and executive officers and all of our executive officers and directors as a group:

Name	Number of Ordinary Shares Beneficially Owned	Percentage of Outstanding Ordinary Shares ⁽²⁾
Yitzhak Nissan ⁽¹⁾	4,065,912	69.5%
All executive officers and directors as a group ⁽³⁾	4,209,566	72.02%

(1) Except for Mr. Nissan, none of our directors or executive officers holds any of our ordinary shares. Mr. Nissan is the beneficial owner of 3,891,596 shares held by Nistec Golan, a company controlled by him and holds 174,316 shares as an individual. The principal business address of Nistec Golan is 43 Hasivim Street, Petach Tikva, Israel.

(2) The percentages shown are based on 5,849,678 ordinary shares issued and outstanding as of March 20, 2022.

(3) The number of ordinary shares beneficially owned includes 143,654 ordinary shares subject to options that are currently exercisable or exercisable within 60 days of the date of this report.

2018 Share Incentive Plan

Our 2018 share incentive plan authorized the grant of options to purchase shares and restricted shares unites to officers, employees, directors and consultants of the company and its subsidiaries. Awards granted under the plan to participants in various jurisdictions may be subject to specific terms and conditions for such grants as may be approved by our board from time to time.

Each option granted under the plan is exercisable for a period of ten years from the date of the grant of the option or the expiration dates of the option plan. The options primarily vest gradually over four years of employment.

During 2019, 62,662 options were granted (including an adjustment to options previously granted, to reflect the dilutive effect of the rights offering) under the plan and no options were exercised. During 2020, 16,014 options were granted (including an adjustment to options previously granted, to reflect the dilutive effect of the rights offering) under the plan and no options were exercised. During 2021, 270,200 options were granted. As of December 31, 2021, options to purchase 404,733 ordinary shares were outstanding under the plan, exercisable at an average exercise price of \$5.24 per share.

In December 2020, the Company's Compensation Committee and Board of Directors, as applicable, approved the grant of options to purchase 100,000 ordinary shares to the Company's CEO. In March 2021 our Compensation Committee and Board of Directors approved the grant of options to purchase 170,200 ordinary shares to our directors, office holders and employees. The grant to our directors included a grant of 20,000 options to each of the Company's directors (100,000 in the aggregate), including the external directors but excluding Yitzhak Nissan. The December 2020 grant to the CEO and March 2021 grant to the directors and to Ms. Revital Cohen Tzemach, the Company's special projects manager and daughter of Mr. Nissan, was approved by the Shareholders at the 2021 General meeting, held on June 3, 2021.

In December 2021, the Company's Compensation Committee and Board of Directors approved the grant of an additional 13,000 options with an exercise price of \$4.18 to its new CFO.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS**A. Major Shareholders**

The following table sets forth certain information as of March 22, 2022 regarding the beneficial ownership by all shareholders known to us to own beneficially 5% or more of our ordinary shares:

Name	Number of Ordinary Shares Beneficially Owned (1)	Percentage of Ownership (2)
Nistec Golan Ltd. (3)	3,891,596	66.53%
Yitzhak Nissan (3)	174,316	2.98%

- (1) Beneficial ownership is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Ordinary shares relating to options or convertible notes currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, and subject to community property laws where applicable, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.
- (2) The percentages shown are based on 5,849,678 ordinary shares issued and outstanding as of March 16, 2022.
- (3) Based on a Schedule 13D/A filed on February 16, 2021. In addition, Nistec Ltd. transferred its shares to Nistec Golan in December 2018. Nistec Golan is an Israeli private company controlled by Yitzhak Nissan. Accordingly, Mr. Nissan may be deemed to be the beneficial owner of the ordinary shares held directly by Nistec.

Significant Changes in the Ownership of Major Shareholders

In our March 2019 rights offering to our shareholders, Nistec acquired 1,707,364 additional ordinary shares of our company and Mr. Nissan acquired 206,712 additional ordinary shares of our company.

In our December 2020 rights offering to our shareholders, Nistec acquired 1,159,813 shares and Mr. Nissan individually acquired 43,576 of our ordinary shares, increasing his direct and indirect voting interest from 65.4% to 69.6%.

Mr. Michael McGauley reported a 5.21% ownership in the company effective as of November 25, 2019 in a Schedule 13D filing dated December 6, 2019. Mr. Michael McGauley reported a 4.99% ownership interest effective as of November 30, 2020 in a Schedule 13D filing dated December 2, 2020.

Major Shareholders Voting Rights

Our principal shareholders do not have different voting rights attached to their ordinary shares.

Record Holders

Based on the information provided to us by our transfer agent, as of March 16, 2022, there were 8 holders of record of our ordinary shares, of which 6 record holders holding approximately 33.5% of our ordinary shares had registered addresses in the United States. These numbers are not representative of the number of beneficial holders of our shares nor are they representative of where such beneficial holders reside, since many of our ordinary shares were held of record by brokers or other nominees (including one U.S. nominee company, CEDE & Co., which held approximately 33.4% of our outstanding ordinary shares as of such date).

B. Related Party Transactions

On December 5, 2019 our shareholders approved the renewal and amendment of a management agreement with Nistec Ltd. On June 3, 2021, the Shareholders approved an additional renewal and amendment of a management agreement with Nistec Ltd. effective January 1, 2022, for a period of 3 years. Under the terms of the amended management agreement, Mr. Nissan serves as the Chairman of our Board of Directors. In that role, Mr. Nissan provides us with various enumerated services, as follows: (a) coordination of the activities of our Board of Directors with respect to the development of the long term strategy for Eltek; (b) guidance to our Board of Directors with respect to the implementation by management of its strategy, work plans and budget, as shall be determined from time to time by our Board of Directors; (c) coordination of the activities of our Board of Directors with respect to the regulation and implementation of proper corporate governance practices; (d) coordination of the activities of our Board of Directors for the purpose of the approval of quarterly and annual financial statements and reports; (e) development and retention of relations with current and future strategic investors; (f) general guidance and management of the activities of our Board of Directors; (g) advancement of the our company's efforts with respect to the realization of its business development strategy, including the pursuit of mergers and acquisition opportunities; (h) coordination of the activities of our Board of Directors with respect to the definition of strategic financial targets and in attaining such targets (i) provision of assistance to our company in cooperation with our CEO, regarding our company's dealings, communications and negotiations with the banks and non-banking financing institutions, including but not limited to, assistance with respect to obtaining financing for our company's business activities, and (j) business development services, including assistance, in cooperation with our CEO, in the development and preservation of relationships with our company's existing and potential customers. Mr. Nissan will dedicate the appropriate attention, time and effort to our company in connection with the provision of the enumerated services. The time dedicated by Mr. Nissan for the provision of such services will be as required by our company from time to time, and in accordance with its needs.

In consideration for performing the above services, we pay Nistec Ltd. a monthly fixed fee of NIS 90,000, plus applicable VAT. In addition, Mr. Nissan is entitled to the following compensation:

- Mr. Nissan will receive reimbursement of travel expenses (other than food and beverage expenses) while traveling internationally on behalf of our company, provided that such reimbursement shall not exceed an aggregate amount of NIS 10,000 per calendar quarter.
- Mr. Nissan will receive reimbursement of food and beverage expenses while traveling internationally on behalf of our company, against receipts, in accordance with the Israeli Income Tax Regulations (Deduction of Certain Expenses) 5732-1972.

Our Compensation Committee, Board of Directors and shareholders at an Annual General Meeting resolved to approve the extension and amendment of the management agreement.

In September 2018, our shareholders approved:

- i. The extension of the Amended PCB Purchase Procedure with Nistec Ltd.;

Nistec purchases PCBs from our company solely to provide assembled boards to its customers. Our sales to Nistec are based on our standard pricing, which may be subject to a discount of up to ten percent (10%). Should the order be for imported PCBs, the quote reflects the actual price of such PCBs, plus a mark-up of at least twenty percent (20%). Should the order be for PCBs that are being sold from excess inventory of an original order, the quote will reflect the standard price of such PCBs, with a discount of up to fifty percent (50%) of the price actually paid for such PCBs in the original order (the "Excess Inventory Discount"). The Excess Inventory Discount will apply only to orders from excess inventory of the first original order of a specific PCB (i.e., should a second order of a specific PCBs generate any excess inventory and Nistec would like to purchase such excess, the Excess Inventory Discount will not be applied to such purchase).

- ii. The extension of the amended general engagement terms, processes and restrictions of the Soldering and Assembly Services Procedure with Nistec Ltd.;

We may acquire soldering services and/or purchasing services from Nistec. Nistec's pricing for its soldering services will be its standard pricing less a five percent (5%) discount. Nistec may charge for purchasing services in accordance with the actual costs of the orders, plus a fourteen and a quarter (14.25%) commission, which reflects a five percent (5%) discount, as compared to the commission charged to third parties by Nistec for similar services. Prices of services not subject to Nistec's standard pricing will be negotiated by the parties in good faith (without participation of Mr. Nissan or any of his relatives). Nistec standard procedures govern manufacturer warranties and restrictions regarding defective assembled products. In addition to requesting Nistec to provide us with a quote for soldering and assembly services, in the event that we require design and/or design services for production of PCBs, we may ask Nistec to provide a quote for such services. Nistec may charge for design and/or design services in accordance with its standard pricing for such services, less a five percent (5%) discount. Out purchases of services under the Soldering, Assembly and Design Services Procedure may not exceed NIS 300,000 (approximately \$93,000) per annum.

iii. The extension of the procedure under which we and Nistec Ltd. may jointly acquire certain services related to employees social activities, marketing services and insurance.

We may share with Nistec costs of insurance consulting and insurance premiums in the event we determine that a joint insurance policy with Nistec will reduce our costs as compared to purchasing insurance separately. Insurance expenditures will be divided between the our companies as follows: (i) insurance consulting services costs will be divided in proportion to the insurance premiums paid by our two companies in the preceding year; (ii) the joint insurance premiums will be divided in the proportions indicated by the insurer for each of our two companies had they purchased the insurance separately. We will solicit updated insurance proposals at least bi-annually. The decision to enter into such a joint insurance policy with Nistec will be subject to the approval of our Audit Committee and our Board of Directors.

We may purchase social activities for the benefit of our employees together with Nistec. The cost of such activities will be divided between us in accordance with the ratio of the number of our employees and Nistec employees to whom the applicable activity was directed, regardless of actual participation.

We may purchase services together with Nistec. Marketing costs will be divided between us as follows: (i) to the extent the portion of the marketing material applicable to our company can be quantified, costs will be divided accordingly; (ii) in the event that such costs cannot be quantified, we and Nistec will each bear 50% of the marketing costs.

In December 2019, the exculpation letter granted to Mr. Yitzhak Nissan was further extended in December 2019 for an additional three (3) year period ending on December 31, 2022

On October 29, 2020, our shareholders approved, effective as of August 1, 2020: (i) an increase in the gross monthly salary of Ms. Cohen-Tzemach, the daughter of Mr. Nissan, from NIS 18,000 to NIS 20,000; and (ii) that Ms. Cohen-Tzemach will be entitled to three (3) additional vacation days per year, such that she will be entitled to 23 vacation days per year. Other than as described above, the terms of Ms. Cohen-Tzemach's employment will remain the same, including that Ms. Cohen-Tzemach shall be entitled to the use of a 7-seat company car, valued up to NIS 180,000, including all associated operation and maintenance expenses. Ms. Cohen-Tzemach's new position will be a special project manager and it was approved that our bonus plan will also apply to her. The term of her employment agreement was extended until August 31, 2022 and she was granted options to purchase 3,000 of our shares, at an exercise price of US\$ 6.38. The options vest over a period of four (4) years, such that at the first anniversary of grant, 25% of the options will vest, and then in equal amounts, quarterly thereafter. On October 29, 2020, the shareholders approved a grant of a bonus of up to NIS 50,000 to Ms. Cohen-Tzemach, to cover her tuition, in accordance with the Company's the Amended Compensation Policy. On June 3, 2020, the shareholders approved a grant of options to purchase 10,000 of the Company's Ordinary Shares to Ms. Revital Cohen-Tzemach, at an exercise price of US\$ 5.52. The options vest over a period of four (4) years, such that at the first anniversary of grant, 25% of the options will vest, and then in equal amounts, quarterly thereafter, and the application of the of the Company's Bonus Plans during the period 2022 to 2024 with respect to her.

In June 2017, we received a loan of NIS 5.0 million (approximately \$1.4 million) from Nistec. In March 2018, we received additional loans from Nistec, of NIS 4.0 million (approximately \$1.2 million), and in July 2018, we received a third loan from Nistec, of NIS 1.0 million (approximately \$290,000) (together, the "Loans"). In December 2018, the Loans and Nistec's shares were transferred internally within the Nistec group to an affiliated company, Nistec Golan Ltd. On December 5, 2019, our shareholders approved the execution of an amended interest agreement with Nistec Golan (the "Interest Agreement"). Under the terms of the Interest Agreement (any accrued interest prior to the date of the Interest Agreement was waived by Nistec Golan), the Loans, which were repaid from the proceeds of our December 2020 rights offering, carried interest, as follows: A loan in the amount of NIS 5 million carried interest of Prime + 1%, from September 26, 2019 until January 7, 2020. A second loan amount of NIS 5 million carried interest of Prime + 1.75%, from January 1, 2019 until December 2020.

On October 29, 2020, our shareholders approved an amendment to the Interest Agreement (the Amended Interest Agreement), such that in the event that the guarantees that Nistec provided to a bank and a NBFII will be exercised, Nistec would repay such loans to the lenders and we would pay Nistec interest on such amounts, equal to the interest rate agreed between us and the non-banking financial institution, plus 0.5% annually.

In addition to the above loans, in January 2019, Nistec Golan provided a NIS 2.0 million (approximately \$580,000) guarantee of an existing line of credit to a bank, which was payable on April 30, 2019. In February 2019, our audit committee approved the exercise of the option that Nistec would repay the debt owed to the bank and would be converted into a loan to us, which was repaid on May 1, 2020.

In June 2020, we obtained a loan of NIS 4 million (approximately \$1.2 million) from Mizrahi-Tefahot Bank, guaranteed by Nistec Ltd.

As of December 31, 2021 we do not have any outstanding loans from Nistec or Nistec Golan.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See the consolidated financial statements, including the notes thereto, and the exhibits listed in Item 18 hereof.

Legal Proceedings

From time to time we are involved in legal proceedings arising from the operation of our business. Based on the advice of our legal counsel, management believes that except for the proceedings discussed below, such current proceedings, if any, will not have a material adverse effect on our financial position or results of operations.

Employee Related Matters

Three of our employees filed lawsuits between May 2008 and November 2019, alleging that they had suffered personal injuries during their employment and they are seeking aggregate financial compensation of approximately \$121,000 for past damages and additional amounts for future lost income, pain and suffering as the court may determine. Five other employees notified us between January 2011 and December 2019, that they allegedly suffered personal injuries during their employment with the company, but have not filed a lawsuit. Of these five employees, two are seeking compensation of approximately \$1.7 million and the others did not state their claim amount. We submitted all of these claims to our insurance company, which informed us that it is reviewing the statements of claim without prejudicing its rights to deny coverage.

During the period February 2019 through October 2020, two former employees filed law suits seeking additional payments in connection with their employment and subsequent termination. The aggregate amount claimed for the above mention matters is approximately \$345,000. We recorded a provision according to our legal advisor's opinion.

In March 2022, a lawsuit was filed by a former employee of the Company seeking additional payments in connection with his employment termination. The amount claimed is \$125,000.

Software License

A supplier of one of our software packages asked to conduct an audit of our operation to verify that we are not in breach of any intellectual property rights he allegedly owns. We believe that we have fully, diligently and timely complied with our obligation toward the supplier. We also believe that the supplier has no right to conduct any audit of our products or services and such audit may cause us to breach confidentiality obligations to other entities. If a claim is made and we are found to be in violation of such supplier's intellectual property rights, we could be liable for compensation and costs of an unknown amount. Such liability could have a material adverse effect on our business, financial condition and results of operations.

Dividend Distribution Policy

We have never declared or paid any cash dividends to our shareholders. We currently intend to retain future earnings for use in our business and do not anticipate paying cash dividends on our ordinary shares in the foreseeable future. Any future dividend policy will be determined by our board of directors and will be based upon conditions then existing, including our results of operations, financial condition, current and anticipated cash needs, contractual restrictions and other conditions.

According to the Israeli Companies Law, a company may distribute dividends out of its profits provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due. Notwithstanding the foregoing, dividends may be paid even if not out of profits, with the approval of a court, provided that there is no reasonable concern that such dividend distribution will prevent the company from satisfying its current and foreseeable obligations, as they become due. Profits, for purposes of the Israeli Companies Law, means the greater of retained earnings or earnings accumulated during the preceding two years, after deducting previous distributions that were not deducted from the surpluses. In the event cash dividends are declared, such dividends will be paid in NIS.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offer and Listing Details

Our ordinary shares are traded on the NASDAQ Capital Market under the ticker symbol "ELTK."

B. Plan of Distribution

Not applicable.

C. Markets

Our ordinary shares have been listed on the NASDAQ Stock Market since our initial public offering on January 22, 1997. The listing of our ordinary shares was transferred from the NASDAQ National Market to the NASDAQ Capital Market (symbol: ELTK) in May 1999.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expense of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

Set out below is a description of certain provisions of our memorandum of association and articles of association and of the Israeli Companies Law related to such provisions. This description is only a summary and does not purport to be complete and is qualified by reference to the full text of the memorandum of association and articles of association, which are incorporated by reference as exhibits to this Annual Report, and to Israeli law.

Purposes and Objects of the Company

We are registered with the Israeli Registrar of Companies and have been assigned company number 52-004295-3. Section 2 of our memorandum of association provides that we were established for the purpose of engaging in the business of developing, manufacturing, producing, vending, importing, exporting, supplying, distributing and dealing in printed, multi-layer, flexible, thick film, hybrid and integrated circuits, components or portions thereof, processes for making the same and related products. In addition, the purpose of our company is to perform various corporate activities permissible under Israeli law.

The Powers of the Directors

Under the provisions of the Israeli Companies Law and our articles of association, a director cannot vote on a proposal, arrangement or contract in which he or she has personal interest in, nor be present in the discussion relating to such transaction is considered. In addition, our directors' compensation is approved through special procedures prescribed in the Israeli Companies Law. In general, with respect to a director's compensation, approval is required by the (i) compensation committee; (ii) board of directors; and (iii) company's shareholders with a regular majority (in that order).

The authority of our directors to enter into borrowing arrangements on our behalf is not limited, except in the same manner as any other transaction by us.

Under our articles of association, the service of directors in office is not subject to any age limitation and our directors are not required to own shares in our company in order to qualify to serve as directors.

Annual and Extraordinary Meetings of Shareholders

The board of directors must convene an annual general meeting of shareholders at least once every calendar year, within 15 months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. In addition, the board of directors must convene a special general meeting of the shareholders upon the demand of any of: (1) two of the directors; (ii) 25% of the nominated directors; (iii) one or more shareholders holding at least 5% of our company's issued and outstanding share capital and at least 1% of the voting power in the company; or (iv) one or more shareholders holding at least 5% of the voting power in our company.

The quorum required for a shareholders meeting consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least one third of the voting rights of the issued share capital. A meeting adjourned for lack of a quorum is adjourned by seven business days, at the same time and place, or any later time and place as the board of directors designate in a notice to the shareholders. The requisite quorum at an adjourned general meeting will be: (i) if the original meeting was convened upon requisition by shareholders pursuant to the Israeli Companies Law - the number of shareholders holding the minimum number of voting shares necessary to make such requisition, present in person or by proxy; and (ii) in any other event - one or more shareholders, present in person or by proxy, holding at least one share. We do not follow the requirements of the NASDAQ Stock Market Rules regarding the quorum at shareholder meetings. See Item 16G. "Corporate Governance."

Please refer to Exhibit 2.2 for Items 10.B.3, B.4, B.6, B.7, B.8, B.9 and B.10.

C. Material Contracts

None.

D. Exchange Controls

Israeli law and regulations do not impose any material foreign exchange restrictions on non-Israeli holders of our ordinary shares. Non-residents of Israel who purchase our ordinary shares will be able to convert dividends, if any, thereon, and any amounts payable upon our dissolution, liquidation or winding up, as well as the proceeds of any sale in Israel of our ordinary shares to an Israeli resident, into freely repatriable dollars, at the exchange rate prevailing at the time of conversion, provided that the Israeli income tax has been withheld (or paid) with respect to such amounts or an exemption has been obtained.

E. Taxation

The following is a discussion of Israeli and United States tax consequences material to our shareholders. To the extent that the discussion is based on tax legislation which has not been subject to judicial or administrative interpretation, the views expressed in the discussion might not be accepted by the tax authorities in question or by court. The discussion is not intended, and should not be construed, as legal or professional tax advice and does not exhaust all possible tax considerations.

Holders of our ordinary shares should consult their own tax advisors as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of ordinary shares, including, in particular, the effect of any foreign, state or local taxes.

ISRAELI TAX CONSIDERATIONS

General Corporate Tax Structure

Israeli companies are generally subject to income tax on their taxable income. The regular corporate tax rate in Israel has been 23% since 2018. However, the effective rate of tax payable by a company which is qualified under Israeli law as an "Industrial Company" and/or which derives income from an "approved enterprise," "benefited enterprise," "preferred enterprise" or "preferred technological enterprise" (as further discussed below) may be lower. See this Item 10E. "Additional Information – Taxation - Tax Benefits Under the Law for the Encouragement of Capital Investments, 5719-1959."

Tax Benefits under the Law for the Encouragement of Industry (Taxes), 5729-1969

Pursuant to the Law for the Encouragement of Industry (Taxes), 5729-1969, or the Industry Encouragement Law, a company qualifies as an "Industrial Company" if it is a resident of Israel, was incorporated in Israel and at least 90% of its income in any tax year (exclusive of income raising from certain governmental security loans) is derived from an "Industrial Enterprise" it owns, which is located in Israel. An "Industrial Enterprise" is defined for purposes of the Industry Law as an enterprise whose principal activity in a given tax year is production.

We believe that we are currently an Industrial Company. An Industrial Company is entitled to certain tax benefits, including a deduction of the purchase price of patents or the right to use a patent or know-how used for the development or promotion of the Industrial Enterprise at the rate of 12.5% per annum, commencing the year in which such rights were first exercised.

The tax laws and regulations dealing with the adjustment of taxable income for local inflation provided that Industrial Enterprises, such as us, were eligible for special rates of depreciation deductions. These rates vary in the case of plant and equipment. With respect to equipment, the applicable rates of depreciation are determined according to the number of shifts in which the equipment is being operated and generally range from 20% to 40% on a straight-line basis, a 30% to 50% on a declining balance basis for equipment first put into operation on or after June 1, 1989 (instead of the regular rates which are applied on a straight-line basis). The applicable regulations are valid for equipment whose date of first operation was not later than December 31, 2016.

Moreover, companies which own Industrial Enterprises that are approved enterprises or benefited enterprises (see below) can choose, with respect to income deriving from such enterprises, between (a) the special depreciation rates referred to above or (b) accelerated regular rates of depreciation applied on a straight-line basis in respect of property and equipment, generally ranging from 200% (for equipment) to 400% (for buildings) of the ordinary depreciation rates during the first five years of service of these assets, provided that the depreciation on a building may not exceed 20% per annum, multiplied by the applicable adjustment rate.

Eligibility for benefits under the Industry Encouragement Law is not contingent upon the prior approval of any Government agency. There can be no assurance that we will continue to so qualify, or will be able to avail ourselves of any benefits under the Industry Law in the future.

Tax Benefits under the Law for the Encouragement of Capital Investments, 5719-1959

General

Our production facility qualifies as a "benefited enterprise" under the Law for the Encouragement of Capital Investments, 5719-1959, as amended in 2005, or the Investment Encouragement Law, which provides certain tax benefits to investment programs of an "approved enterprise" or "benefited enterprise." Our benefited enterprise was converted from a previously approved enterprise program pursuant to the approval of the Israel Tax Authority that we received in September 2006. As of yet, it was not necessary for us to utilize these tax benefits. In the event that we do not commence to use the tax benefits until the 2023 tax year (the "Expiration Date"), the tax benefits granted to our benefited enterprise shall expire.

The Investment Encouragement Law stipulates certain criteria which need be met with respect to investment programs carried out by an enterprise, in order for such an enterprise to be classified as a "benefited enterprise." Israeli resident companies which own benefited enterprise are generally classified as Benefited Companies. Benefited Companies may claim tax benefits (as further discussed below) granted by the Investment Encouragement Law in its tax returns (and there is no need to obtain prior approval to qualify for such benefits). There is no requirement to file reports with the Investment Center. Audits are the responsibility of the Israeli Income Tax Authority as part of their tax audits. Companies may also approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the Investment Encouragement Law.

A company that owns an approved enterprise is eligible for governmental grants, but may elect to receive an alternative package comprised of tax benefits, referred to as the "previous alternative benefits track". The tax benefits of an approved enterprise include lower tax rates or no tax depending on the area and the track chosen, lower tax rates on dividends and accelerated depreciation. In order to receive benefits in the grant track or the alternative benefit track, the industrial enterprise must contribute to the economic independence of the Israeli economy, be competitive and contribute to the gross local product in one of the manners stipulated in the Investment Encouragement Law. Tax benefits would be available, subject to certain conditions (described below), to production facilities that generally derive more than 25% of their annual revenue from export, or that do not derive 75% or more of their annual revenue in a single market.

Amendments to Investment Encouragement Law

In December 2010, the Israeli Parliament passed the Law for Economic Policy for the Years 2011 and 2012 (Amended Legislation), 5771-2011, which prescribes, among other things, amendments to the Investment Encouragement Law, effective as of January 1, 2011 (the "2011 Amendment"). The 2011 Amendment introduced new benefits for income generated by a "Preferred Company" through its Preferred Enterprise (as such terms are defined in the Investment Encouragement Law), if certain criteria are met. The new tax benefits (described below) would be available, subject to certain conditions, to production facilities that generally derive more than 25% of their annual revenue from export, or that do not derive 75% or more of their annual revenue in a single market, or, to competitive facilities in the field of renewable energy. A "Preferred Company" is defined in the amendment as either (i) a company incorporated in Israel and not wholly-owned by governmental entities; or (ii) a partnership (a) that was registered under the Israeli Partnerships Ordinance; and (b) all of its partners are companies incorporated in Israel, which are in general not transparent for Israeli tax purposes and that not all of them are fully owned by governmental entities and such companies or partnerships own, among other conditions, Preferred Enterprises and are controlled and managed from Israel.

In accordance with the 2011 Amendment and further amendments, a Preferred Company is entitled to reduced corporate tax with respect to income derived by it Preferred Enterprise (and subject to certain conditions) at the rate of 16%, unless it is located in a certain development zone, in which case the rate will be 7.5%.

Under the amendments, dividends distributed out of income which is generally attributed to a Preferred Enterprise are subject to withholding tax at the rate of 20% (or lower, under an applicable tax treaty). However, upon distribution of a dividend attributed to income generated in Israel, to an Israeli company, no withholding tax will apply.

The 2011 Amendment applies to income generated as of January 1, 2011. Under the transitional provisions of the 2011 Amendment, we may elect to irrevocably implement the 2011 Amendment to the Investment Encouragement Law while waiving benefits provided under the Investment Encouragement Law as in effect prior to the 2011 Amendment or to remain subject to the Investment Encouragement Law as in effect prior to the 2011 Amendment. We may elect to implement the 2011 Amendment by May 31 of any year, and such an election shall apply as of the tax year following the year on which the company's tax return (and the election) was filed. Electing to implement the 2011 Amendment is irreversible.

We qualify for the status of a "Preferred Company" pursuant to the 2011 Amendment. We are contemplating the implementation of the 2011 Amendment in future tax years.

In 2021, we have reversed the valuation allowance recorded in past years due to our forecast that it is more likely than not that the Company will realize its deferred tax losses in the future.

The termination or substantial reduction of any of the benefits available under the Investment Encouragement Law could have a material adverse effect on our future investments in Israel, and could adversely affect our results of operations and financial condition.

Taxation of Gains Upon Disposition of, and Dividends Paid on, our Ordinary Shares

Taxation of Israeli Resident Shareholders

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the CPI between the date of purchase and the date of sale. Foreign residents who purchased an asset in foreign currency may request that the inflationary surplus will be computed on the basis of the devaluation of the NIS against such foreign currency. The real gain is the excess of the total capital gain over the inflationary surplus. The inflationary surplus accumulated from and after December 31, 1993, is exempt from any capital gains tax in Israel while the real gain is taxed at the applicable rate discussed below.

Dealers in securities in Israel are taxed at regular tax rates applicable to business income.

Subject to certain provisions relating to the linear calculation method applicable to the determination of the capital gain tax pertaining to capital gains derived from the sale of assets, purchased prior to January 1, 2003, or prior to January 1, 2012 (with respect to sale of assets or securities not listed in a stock exchange prior to 1.1.2012), the tax rate on capital gains, including capital gain from the sale of securities listed on a stock exchange and on dividends, is generally 25% for individuals and 30% for substantial individual shareholders (that are, generally, holders of 10% or more of the shares of the company on the date of the sale of the shares or at any date during the 12 months period preceding such sale). The tax rate for capital gains generated by corporations is 23% (since 2018). Dividends paid to an Israeli company by another Israeli company are not subject to tax, unless received out of income derived from a benefited enterprise, or an approved enterprise, or stems from income derived or accrued outside of Israel.

If the shares were sold by Israeli residents, then (i) for the period ending December 31, 2002 their sale would generally be tax exempt so long as (1) the shares were listed on a stock exchange, such as, in our case, the NASDAQ Capital Market, which is recognized by the Israeli Ministry of Finance on December 31, 2002, and (2) we qualified as an Industrial Company or Industrial Holding Company under the law for Industry Encouragement Law, at the relevant times as provided by the Income Tax Ordinance [New Version], 5721-1961, which we believe we so qualified and (ii) for the period commencing January 1, 2003, the sale of the shares would be, generally, subject to a 25% tax if sold by non-substantial individual shareholders and 30% tax if sold by a substantial individual shareholders. The tax rate for corporate shareholders for the sale of the shares is 23% (since 2018). We cannot provide any assurance that the Israeli tax authorities will agree with the determination that we qualified as an Industrial Company at the relevant times.

Taxation of Non-Israeli Resident Shareholders

Under the convention between the United States and Israel concerning taxes on income, Israeli capital gains tax will generally not apply to the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States. However, this exemption will not apply, among other cases, if the gain is attributable to a permanent establishment of such person in Israel, or if the qualified U.S. resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the sale, exchange or disposition, subject to specified conditions. In this case, the sale, exchange or disposition would be subject Israeli tax, to the extent applicable under Israeli domestic law. However, under the U.S.-Israel tax treaty, a U.S. resident generally would be permitted to claim a credit for the Israeli tax against the U.S. federal income tax imposed on the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel tax treaty does not relate to U.S. state or local taxes.

For residents of other countries, the purchaser of the shares may be required to withhold capital gains tax on all amounts paid by it for the purchase of shares for the sale of our ordinary shares, for so long as the capital gain from such a sale is not exempt from Israeli capital gains tax.

Notwithstanding the above, the capital gain from the sale of our shares by non-Israeli residents would be tax exempt as long as our shares are listed on the NASDAQ Capital Market or any other stock exchange recognized by the Israeli Ministry of Finance, and provided that certain other conditions are met. The most relevant conditions are as follows: (i) the capital gain is not attributed to the foreign resident's permanent establishment in Israel, and (ii) the shares were acquired by the foreign resident after the company's shares had been listed for trading on the foreign Exchange.

On the distribution of dividends other than bonus shares (stock dividends) to individual Israeli residents shareholders or to non-Israeli shareholders, income tax applies at the rate of 25% or 30%, as described above, or the lower rate payable with respect to dividends received out of income derived from a preferred or benefited enterprise (see the Investment Encouragement Law), unless a double taxation treaty is in effect between Israel and the shareholder's country of residence which provides for a lower tax rate in Israel on dividends. The Convention between the State of Israel and the Government of the United States relating to relief from double taxation provides for a maximum tax of 25% on dividends paid to a resident of the United States. As set forth above, dividends paid to an Israeli company by another Israeli company are not subject to corporate tax, unless received out of income derived from a benefited enterprise, or an approved enterprise or unless the dividend stems from income produced or accrued abroad.

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Such sources of income include passive income such as dividends, royalties and interest, as well as non-passive income from services rendered in Israel. Distributions of dividends other than bonus shares or stock dividends, are subject to income tax at the rate of 25% or 30% (for individuals), or 23% (for corporations in 2018 and 2019) pursuant to Israeli domestic law as described above. However, under the Investment Encouragement Law, dividends generated by an approved enterprise or by our benefited enterprise are, generally, taxed at the rate of 15%.

Pursuant to the Convention between the State of Israel and the Government of the United States relating to relief from double taxation, the maximum tax rate on dividends paid to a holder of ordinary shares who is a Treaty U.S. Resident will be 25%. However, dividends which are not generated by an approved enterprise will generally be subject to Israeli tax at a rate of 12.5% if paid to a U.S. corporation which holds 10% of our voting power for a designated period and provided that not more than 25% of our gross income for such period consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends distributed from income attributed to an approved enterprise are generally subject to a withholding tax rate of 15% for such a U.S. corporation shareholder (which meets both conditions set forth above).

Subject to certain conditions, non-Israeli residents will be tax exempt on capital gain derived from investments in Israeli companies without derogating from any other capital gain tax exemption applying to non-Israeli resident under Israeli law or under any applicable double tax treaty.

United States Federal Income Taxation

The following is a general discussion of the material U.S. federal income tax consequences of the acquisition, ownership and disposition of our ordinary shares. This description addresses only the U.S. federal income tax considerations that may be relevant to U.S. Holders (as defined below) who hold our ordinary shares as capital assets. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, (the "Code") Treasury regulations promulgated thereunder, judicial and administrative interpretations thereof and the U.S.-Israel Tax Treaty (the "Treaty"), all as in effect on the date hereof and all of which are subject to change either prospectively or retroactively or to differing interpretations. There can be no assurance that the U.S. Internal Revenue Service ("IRS") will not take a different position concerning the tax consequences of the acquisition, ownership or disposition of our ordinary shares or that such a position would not be sustained. This discussion does not address all tax considerations that may be relevant to a U.S. Holder of ordinary shares. In addition, this description does not account for the specific circumstances of any particular investor, such as:

- broker-dealers;
- financial institutions or financial services entities;
- certain insurance companies;
- investors liable for alternative minimum tax;
- regulated investment companies, real estate investment trusts, or grantor trusts;
- dealers or traders in securities, commodities or currencies;
- tax-exempt organizations;
- retirement plans;
- S corporations;
- pension funds;
- certain former citizens or long-term residents of the United States;
- non-resident aliens of the United States or taxpayers whose functional currency is not the U.S. dollar;
- persons who hold ordinary shares through partnerships or other pass-through entities;
- persons who acquire their ordinary shares through the exercise or cancellation of employee stock options or otherwise as compensation for services;
- direct, indirect or constructive owners of investors that actually or constructively own at least 10% of the total combined voting power of our shares or at least 10% of our shares by value; or
- investors holding ordinary shares as part of a straddle, appreciated financial position, a hedging transaction or conversion transaction.

If a partnership or an entity treated as a partnership for U.S. federal income tax purposes owns our ordinary shares, the U.S. federal income tax treatment of a partner in such a partnership will generally depend upon the status of the partner and the activities of the partnership. A partnership that owns our ordinary shares and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of holding and disposing of ordinary shares.

This summary does not address the effect of any U.S. federal taxation (such as estate and gift tax) other than U.S. federal income taxation. In addition, this summary does not include any discussion of state, local or non-U.S. taxation.

For purposes of this summary the term "U.S. Holder" means a person that is eligible for the benefits of the Treaty and is a beneficial owner of ordinary shares who is, for U.S. federal income tax purposes:

- an individual who is a citizen or a resident of the United States;
- a corporation or other entity taxable as a corporation for United States federal income tax purposes, created or organized in or under the laws of the United States or any political subdivision thereof;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust if the trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over the trust's administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of the trust.

Unless otherwise indicated, it is assumed for the purposes of this discussion that the Company is not, and will not become, a "passive foreign investment company" ("PFIC") for U.S. federal income tax purposes. See "*Passive Foreign Investment Companies*" below.

Taxation of Distributions

Subject to the discussion below under the heading "*Passive Foreign Investment Companies*," the gross amount of any distributions received with respect to our ordinary shares, including the amount of any Israeli taxes withheld therefrom, will constitute dividends for U.S. federal income tax purposes when such distribution is actually or constructively received, to the extent such distribution is paid out of our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Because we do not expect to maintain calculations of our earnings and profits under U.S. federal income tax principles, it is expected that the entire amount of any distribution will generally be reported as dividend income to you. Dividends are included in gross income at ordinary income rates, unless such dividends constitute "qualified dividend income," as set forth in more detail below. Distributions in excess of our current and accumulated earnings and profits would be treated as a non-taxable return of capital to the extent of your adjusted tax basis in our ordinary shares and any amount in excess of your tax basis would be treated as gain from the sale of ordinary shares. See "*Sale, Exchange or Other Disposition of Ordinary Shares*" below for a discussion of the taxation of capital gains. Our dividends would not qualify for the dividends-received deduction generally available to corporations under section 243 of the Code.

Dividends that we pay in NIS, including the amount of any Israeli taxes withheld therefrom, will be included in your income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day such dividends are received, regardless of whether the payment is in fact converted into U.S. dollars. A U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at an exchange rate other than the rate in effect on such day may have a foreign currency exchange gain or loss that would generally be treated as U.S.-source ordinary income or loss. U.S. Holders should consult their own tax advisors concerning the U.S. tax consequences of acquiring, holding and disposing of NIS.

Subject to complex limitations, some of which vary depending upon the U.S. Holder's circumstances, any Israeli withholding tax imposed on dividends paid with respect to our ordinary shares, may be a foreign income tax eligible for credit against a U.S. Holder's U.S. federal income tax liability (or, alternatively, for deduction against income in determining such tax liability). Israeli taxes withheld in excess of the applicable rate allowed by the Treaty (if any) will not be eligible for credit against a U.S. Holder's federal income tax liability. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. Dividends paid with respect to our ordinary shares generally will be treated as foreign-source passive category income or, in the case of certain U.S. Holders, general category income for U.S. foreign tax credit purposes. Further, there are special rules for computing the foreign tax credit limitation of a taxpayer who receives dividends subject to a reduced tax rate. A U.S. Holder may be denied a foreign tax credit with respect to Israeli income tax withheld from dividends received on our ordinary shares if such U.S. Holder fails to satisfy certain minimum holding period requirements or to the extent such U.S. Holder's position in ordinary shares is hedged. An election to deduct foreign taxes instead of claiming a foreign tax credit applies to all foreign taxes paid or accrued in the taxable year. The rules relating to the determination of the foreign tax credit are complex. You should consult with your own tax advisors to determine whether and to what extent you would be entitled to this credit.

Subject to certain limitations (possibly including the PFIC rules discussed below), "qualified dividend income" received by a non-corporate U.S. Holder may be subject to tax at the lower long-term capital gain rates (currently, a maximum rate of 20%). Distributions taxable as dividends paid on our ordinary shares should qualify for a reduced rate if we are a "qualified foreign corporation," as defined in Code section 1(h)(11)(C). We will be a qualified foreign corporation if either: (i) we are entitled to benefits under the Treaty or (ii) our ordinary shares are readily tradable on an established securities market in the United States and certain other requirements are met. We believe that we are entitled to benefits under the Treaty and that our ordinary shares currently are readily tradable on an established securities market in the United States. However, no assurance can be given that our ordinary shares will remain readily tradable. The rate reduction does not apply unless certain holding period requirements are satisfied, nor does it apply to dividends received from a PFIC (see discussion below), in respect of certain risk-reduction transactions, or in certain other situations. U.S. Holders of our ordinary shares should consult their own tax advisors regarding the effect of these rules in their particular circumstances.

Sale, Exchange or Other Disposition of Ordinary Shares

Subject to the discussion of the PFIC rules below, if you sell or otherwise dispose of our ordinary shares (other than with respect to certain non-recognition transactions), you will generally recognize gain or loss for U.S. federal income tax purposes in an amount equal to the difference between the amount realized on the sale or other disposition and your adjusted tax basis in our ordinary shares, in each case determined in U.S. dollars. Such gain or loss will generally be capital gain or loss and will be long-term capital gain or loss if you have held the ordinary shares for more than one year at the time of the sale or other disposition. Long-term capital gain realized by a non-corporate U.S. Holder is generally eligible for a preferential tax rate (currently at a maximum of 20%). In general, any gain that you recognize on the sale or other disposition of ordinary shares will be U.S.-source for purposes of the foreign tax credit limitation; losses will generally be allocated against U.S. source income. Deduction of capital losses is subject to certain limitations under the Code.

In the case of a cash basis U.S. Holder who receives NIS in connection with the sale or disposition of our ordinary shares, the amount realized will be based on the U.S. dollar value of the NIS received with respect to the ordinary shares as determined on the settlement date of such exchange. A cash basis U.S. Holder who receives payment in NIS and converts NIS into U.S. dollars at a conversion rate other than the rate in effect on the settlement date may have a foreign currency exchange gain or loss, based on any appreciation or depreciation in the value of NIS against the U.S. dollar, which would be treated as ordinary income or loss.

An accrual basis U.S. Holder may elect the same treatment of currency exchange gain or loss required of cash basis taxpayers with respect to a sale or disposition of our ordinary shares that are traded on an established securities market, provided that the election is applied consistently from year to year. Such election may not be changed without the consent of the IRS. In the event that an accrual basis U.S. Holder does not elect to be treated as a cash basis taxpayer (pursuant to the Treasury regulations applicable to foreign currency transactions), such U.S. Holder is required to calculate the value of the proceeds as of the "trade date" and may have a foreign currency gain or loss for U.S. federal income tax purposes in the event of any difference between the U.S. dollar value of NIS prevailing on the trade date and on the settlement date. Any such currency gain or loss generally would be treated as U.S.-source ordinary income or loss and would be subject to tax in addition to the gain or loss, if any, recognized by such U.S. Holder on the sale or disposition of such ordinary shares.

Passive Foreign Investment Companies

We believe that we were not a PFIC for U.S. federal income tax purposes for the 2019 taxable year. However, since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that we will not be considered a PFIC for any future taxable year. If we were a PFIC for any taxable year during which a U.S. Holder owned ordinary shares, certain adverse consequences could apply to the U.S. Holder. Specifically, unless a U.S. Holder makes one of the elections mentioned below, gain recognized by the U.S. Holder on a sale or other disposition of ordinary shares would be allocated ratably over the U.S. Holder's holding period for the ordinary shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the average of the annual distributions received by the U.S. Holder on our ordinary shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. Certain elections (such as a mark-to-market election or a QEF election) may be available to U.S. Holders and may result in alternative tax treatment. U.S. Holders should consult their tax advisors as to the availability and consequences of a mark-to-market election or a QEF election with respect to their ordinary shares.

In addition, if we were a PFIC for a taxable year in which we pay a dividend or the prior taxable year, the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the IRS on IRS Form 8621.

Additional Tax on Investment Income

In addition to the income taxes described above, U.S. Holders that are individuals, estates or trusts and whose income exceeds certain thresholds may be subject to a 3.8% Medicare contribution tax on net investment income, which includes dividends and capital gains from the sale or exchange of our ordinary shares.

Backup Withholding and Information Reporting

Payments in respect of our ordinary shares may be subject to information reporting to the IRS and to U.S. backup withholding tax at the rate (currently) of 24%. Backup withholding will not apply, however, if you (i) fall within certain exempt categories and demonstrate the fact when required or (ii) furnish a correct taxpayer identification number and make any other required certification.

Backup withholding is not an additional tax. Amounts withheld under the backup withholding rules may be credited against a U.S. Holder's U.S. tax liability. A U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund with the IRS.

U.S. citizens and individuals taxable as resident aliens of the United States that (i) own "specified foreign financial assets" (as defined in Section 6038D of the Code and the regulations thereunder) with an aggregate value in a taxable year in excess of certain thresholds (as determined under rules in Treasury regulations) and (ii) are required to file U.S. federal income tax returns generally will be required to file an information report with respect to those assets with their tax returns. IRS Form 8938 has been issued for that purpose. "Specified foreign financial assets" include any financial accounts maintained by foreign financial institutions, foreign stocks held directly, and interests in foreign estates, foreign pension plans or foreign deferred compensation plans. Under those rules, our ordinary shares, whether owned directly or through a financial institution, estate or pension or deferred compensation plan, would be "specified foreign financial assets." Under Treasury regulations, the reporting obligation applies to certain U.S. entities that hold, directly or indirectly, specified foreign financial assets. Penalties can apply if there is a failure to satisfy this reporting obligation. In addition, in the event a U.S. Holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. Holder for the related tax year may not close until three years after the date that the required information is filed. A U.S. Holder is urged to consult the U.S. Holder's tax advisor regarding the reporting obligation.

Any U.S. Holder who acquires more than \$100,000 of our ordinary shares or holds 10% or more of our ordinary shares by vote or value may be subject to certain additional U.S. information reporting requirements.

The above description is not intended to constitute a complete analysis of all tax consequences relating to acquisition, ownership and disposition of our ordinary shares. You should consult your tax advisor concerning the tax consequences of your particular situation.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to certain of the reporting requirements of the Exchange Act as applicable to “foreign private issuers” as defined in Rule 3b-4 under the Exchange Act. As a foreign private issuer, we are exempt from certain provisions of the Exchange Act. Accordingly, our proxy solicitations are not subject to the disclosure and procedural requirements of Regulation 14A under the Exchange Act, and transactions in our equity securities by our officers and directors are exempt from reporting and the “short-swing” profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file quarterly reports and financial statements. However, we file with the SEC an annual report on Form 20-F containing financial statements audited by an independent accounting firm. We also submit to the SEC reports on Form 6-K containing (among other things) press releases and unaudited financial information. We post our annual report on Form 20-F on our website promptly following the filing of our annual report with the SEC. The information on our website is not incorporated by reference into this annual report.

The SEC maintains an Internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is www.sec.gov. We make our reports available on our internet website, free of charge, as soon as reasonably practicable after such material is electronically filed with the SEC.

The documents concerning our company that are referred to in this annual report may also be inspected at our offices located at 20 Ben Zion Gelis Street, Sgoola Industrial Zone, Petach Tikva 4910101, Israel.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS

We are exposed to a variety of market risks, including foreign currency fluctuations and changes in interest rates affecting primarily the interest on short-term credit lines and long-term loans.

Foreign Currency Exchange Risk

Our reporting currency is the dollar. Our revenues are primarily denominated in the dollar, NIS and Euros, while our expenses are primarily denominated in NIS, dollars and Euros. As a result, the NIS value of our dollar and Euro denominated revenues are negatively impacted by the depreciation of the dollar and the Euro against the NIS. In addition, fluctuations in rates of exchange between NIS and other currencies may affect our operating results and financial condition. The average exchange rate for the NIS against the dollar was approximately 6.2% lower in 2021 than 2020 and the average exchange rate of the NIS against the Euro was 2.5% lower in 2021 than 2020, and in total, these changes had a negative impact on our operating results in 2021. The average exchange rate for the NIS against the dollar was approximately 3.4% lower in 2020 than 2019 and the average exchange rate of the NIS against the Euro was 1.7% lower in 2020 than 2019, and in total, these changes had a negative impact on our operating results in 2020. As of December 31, 2021, we estimate that a devaluation of 1% of the dollar against the NIS would result in a decrease of approximately \$200,000 in our operating income and devaluation of 1% of the Euro against the NIS would not have a material impact on our operating and financial results.

If we were to determine that it is in our best interests to enter into hedging transactions in the future in order to protect ourselves in part from currency fluctuations, we may not be able to do so, or such transactions, if entered into, may not materially reduce the effect of fluctuations in foreign currency exchange rates on our results of operations and may result in additional expenses.

Commodity Price Risk

Cost of raw materials is a significant component of our cost of revenues. In 2021, the cost of raw materials used in production was \$8.5 million compared to \$9.4 million in 2020. A 1% increase or decrease in the cost of raw materials used in production would increase or decrease our cost of raw materials by approximately \$85,000.

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our short-term credit lines, short-term loans and long-term loans. For information on the interest rates of our short-term credit lines, short-term loans and long-term loans, see Item 5B, "Operating and Financial Review and Prospects - Liquidity and Capital Resources." For purposes of specific risk analysis, we use sensitivity analysis to determine the impact that market risk exposure may have on the financial expenses derived from our short-term credit lines and long-term loans. Based on our loans balance at December 31, 2021, a hypothetical increase of 1% in the interest rates would result in an increase of approximately \$46,000 in our financial expenses. A hypothetical increase of 1% in the CPI would not have a material impact on our financial and operational expenses.

Credit Risk

We may be subject to significant concentrations of credit risk consisting principally of cash and cash equivalents and trade accounts receivable. Cash and cash equivalents are deposited with major financial institutions in Israel, Europe and the United States.

The risk of collection associated with trade receivables is reduced by the geographical dispersion of our customer base. However, our business involves selling products to customers for whose credit we do not have insurance coverage, and we are exposed to risk with respect to our receivables from them.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our chief executive officer and chief financial officer to allow timely decisions regarding required disclosure. Our management, including our chief executive officer and chief financial officer, conducted an evaluation of our disclosure controls and procedures, as defined under Exchange Act Rule 13a-15(e), as of the end of the period covered by this Annual Report on Form 20-F. Based upon that evaluation, our chief executive officer and chief financial officer have concluded that, as of such date, our disclosure controls and procedures were effective.

Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) or 15d-15(f) promulgated under the Exchange Act as a process designed by, or under the supervision of, our company's principal executive and principal financial officers and effected by our company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of our company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of our company are being made only in accordance with authorizations of management and directors of our company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our company's assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2021. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on that assessment, our management concluded that as of December 31, 2021, our internal control over financial reporting is effective.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

ITEM 16. RESERVED

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Mr. Gad Dovev, an external director, meets the definition of an audit committee financial expert, as defined by rules of the SEC. For a brief listing of Mr. Dovev's relevant experience, see Item 6A. "Directors, Senior Management and Employees - Directors and Senior Management."

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to our chief executive officer and all senior financial employees of our company, including the chief financial officer and the comptroller. The code of ethics is publicly available on our website. Written copies are available upon request. If we make any substantive amendment to the code of ethics or grant any waivers, including any implicit waiver, from a provision of the codes of ethics, we will disclose the nature of such amendment or waiver on our website.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**Independent Registered Public Accounting Firm Fees -**

The following table sets forth, for the year ended December 31, 2021, the fees billed by our independent registered public accountants. Brightman Almagor Zohar & Co., a firm in the Deloitte Global Network, who have served as our principal independent registered public accounting firm since December 2020. Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global, served as our principal independent registered public accounting firm prior to the appointment of Brightman Almagor Zohar & Co.

All of such fees were pre-approved by our Audit Committee.

Services Rendered.	2021	2020
Audit (1)	\$ 75,800	\$ 70,000
Audit Related Fees	21,700	27,500
Tax (2)	5,500	5,000
All other Fees (3)	-	5,600
Total	\$ 103,000	\$ 108,100

- (1) Audit fees relate to audit services provided for each of the years shown in the table, including fees associated with the annual audit, consultations on various accounting issues and audit services provided in connection with statutory or regulatory filings.
- (2) Tax fees relate to services performed regarding tax compliance.
- (3) Other fees are fees for professional services other than audit or tax related fees.

Pre-Approval Policies and Procedures

Our audit committee has adopted a policy and procedures for the pre-approval of audit and non-audit services rendered by our independent registered public accounting firm, Brightman Almagor Zohar & Co., a firm in the Deloitte Global Network. Pre-approval of an audit or non-audit service may be given as a general pre-approval, as part of the audit committee's approval of the scope of the engagement of our independent auditor, or on an individual basis. Any proposed services exceeding general pre-approved levels also require specific pre-approval by our audit committee. The policy prohibits retention of the independent registered public accounting firm to perform the prohibited non-audit functions defined in Section 201 of the Sarbanes-Oxley Act or the rules of the SEC, and also requires the audit committee to consider whether proposed services are compatible with the independence of the registered public accountants.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Neither we nor any affiliated purchaser has purchased any of our securities during 2015.

ITEM 16F. CHANGES IN REGISTRANT'S CERTIFYING ACCOUNTANT

On December 5, 2020 Brightman Almagor Zohar & Co., a firm in the Deloitte Global Network, was engaged as the independent registered public accounting firm for the Company, succeeding of Kost Forer Gabbay & Kasierer. The engagement of Brightman Almagor Zohar & Co., was approved by our shareholders following the recommendation by the Board of Directors and the Audit Committee.

ITEM 16G. CORPORATE GOVERNANCE

Under NASDAQ Stock Market Rule 5615(a)(3), foreign private issuers, such as our company, are permitted to follow certain home country corporate governance practices instead of certain provisions of the NASDAQ Stock Market Rules. A foreign private issuer that elects to follow a home country practice instead of any of such NASDAQ rules must submit to NASDAQ, in advance, a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws.

We have notified NASDAQ that we choose not to comply with the following NASDAQ requirements, and instead follow Israeli law and practice in respect of such requirements:

- The requirement to maintain a majority of independent directors, as defined under the NASDAQ Stock Market Rules. Instead, we follow Israeli law and practice which requires that we appoint at least two external directors, within the meaning of the Israeli Companies Law, to our board of directors. We have the mandated three independent directors, within the meaning of the rules of the SEC and NASDAQ, on our audit committee. See Item 6C. "Directors, Senior Management and Employees - Board Practices - External and Independent Directors."
- The requirements regarding the directors' nominations process. Under Israeli law and practice, our board of directors is authorized to recommend to our shareholders director nominees for election. See Item 6C. – "Directors, Senior Management and Employees - Board Practices - Election of Directors."
- The requirement regarding the quorum for any meeting of shareholders. Instead, we follow Israeli law and practice which provides that, unless otherwise provided by a company's articles of association, the quorum required for a general meeting of shareholders is at least two shareholders present who hold, in the aggregate, 25% of the company's voting rights. Our articles of association provide that the quorum required for a shareholder meeting consists of at least two shareholders present in person or represented by proxy who hold or represent, in the aggregate, at least 33% of the voting rights of the issued share capital. See Item 10B. "Additional Information - Memorandum and Articles of Association- Annual and Extraordinary Meetings of Shareholders."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

ITEM 16I. DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable.

ITEM 17. FINANCIAL STATEMENTS

Not applicable.

ITEM 18. FINANCIAL STATEMENTS

Consolidated Financial Statements

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ITEM 19. **EXHIBITS**

Index to Exhibits

Exhibit	Description
1.1	Memorandum of Association of the Registrant (1)
1.2	Articles of Association of the Registrant, as amended (2)
2.1	Specimen of Share Certificate (3)
2.2	Description of Ordinary Shares(9)
3.1	Form of Director and Officer Indemnity Agreement (4)
4.1	Compensation Policy dated December 5, 2019 (5)
4.2	Bank Hapoalim B.M. Agreement dated April 27, 2014: Summary of Economic Terms; Irrevocable Undertakings (6)
4.3	Bank Leumi B.M. Agreement dated May 27, 2014: Summary of Economic Terms; Irrevocable Undertakings (7)
4.4	English summary of terms of Waste Water Treatment Facility Building and Operation Agreement, dated July 3, 2014, by and between the Registrant and Elad Technologies (L.S.) (8)
8.1	List of Subsidiaries of the Registrant(9)
12.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.(9)
12.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended.(9)
13.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(9)
13.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(9)
15.1	Consent of Brightman Almagor Zohar & Co., a firm in the Deloitte Global Network(9)
15.2	Consent of Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global (9)
16	Letter from Kost Forer Gabbay & Kasierer, a member of Ernst & Young Global (9)
101.INS	Inline XBRL Instance Document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document.
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document.
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document.
101.LAB	Inline XBRL Taxonomy Label Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)
(1)	Filed as Exhibit 1.1 to our registration statement on Form F-1, registration number 333-229740, as amended, and incorporated herein by reference.
(2)	Included in Exhibit 99.1 to our Report of Foreign Issuer on Form 6-K filed on September 12, 2013 and incorporated herein by reference.
(3)	Filed as Exhibit 2.1 to our registration statement on Form F-1, registration number 333-229740, as amended, and incorporated herein by reference.
(4)	Included as Exhibit B to Exhibit 99.1 to our Report of Foreign Issuer on Form 6-K filed on October 31, 2019 and incorporated herein by reference.
(5)	Included as Exhibit A to Exhibit 99.1 to our Report of Foreign Issuer on Form 6-K filed on October 31, 2019 and incorporated herein by reference.
(6)	Filed as Exhibit 4.11 to our Annual Report on Form 20-F for the year ended December 31, 2014, and incorporated herein by reference.
(7)	Filed as Exhibit 4.12 to our Annual Report on Form 20-F for the year ended December 31, 2014, and incorporated herein by reference.
(8)	Filed as Exhibit 4.13 to our Annual Report on Form 20-F for the year ended December 31, 2014, and incorporated herein by reference.
(9)	Filed herewith.

ELTEK LTD. AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2021
IN U.S. DOLLARS
INDEX

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ELTEK LTD.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheet of Eltek Ltd. and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of comprehensive income, shareholders' equity, and cash flows, for the two years ended December 31, 2021, and the related notes (collectively referred to as the "financial statements").

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for the two years ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that were communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.



Inventories – Write-offs of Excess and Obsolete Inventories – Refer to Notes 2G and 4 to the Consolidated Financial Statements

Critical Audit Matter Description

The Company's inventories are stated at weighted average cost and accumulated actual costs, subject to lower of cost or net realizable value. The Company periodically evaluates the inventory quantities on hand relative to historical and projected sales volumes, current and historical selling prices and contractual obligations to maintain certain levels of parts. Based on these evaluations, inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, excess inventories, market prices lower than cost and adjusted revenue forecasts. For the year ended December 31, 2021, the Company recorded inventory write-offs in the amount of \$530,000 for excess and obsolete inventory.

We identified the excess and obsolescence write offs as a critical audit matter because of the significant judgments management makes to estimate these write offs as well as the efforts invested in the audit. This required a high degree of auditor judgment and an increased extent of effort when performing audit procedures to evaluate the methodology and the reasonableness of the excess and obsolescence write offs.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the estimate of the Company's excess and obsolete write offs included the following procedures, among others:

- We obtained an understanding of the process and assumptions used by management to develop the inventory excess and obsolete write offs, through inquiries of the Company's personnel and evaluation of the Company's methodology for determining inventory that is excess or obsolete.
- We evaluated the assumptions used by the Company to define what is considered aged inventory by assessing historical trends in the Company's product life cycle as well as evaluating the underlying calculations applied to the aged inventory.
- For a sample of inventory items with an associated write off for excess and obsolescence, we evaluated whether the write-off for each selection was reasonable by obtaining and evaluating evidence of past usage and aging of the inventory item.
- We tested the accuracy of the Company's inventory valuation calculations utilizing its defined methodology and evaluated the completeness, accuracy, and relevance of the underlying data used in management's estimate.
- We compared management's prior-year inventory reserve estimate to the amount of inventory written off or otherwise disposed of during the current year to consider potential bias in the determination of the inventory reserves.

/s/ Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A Firm in the Deloitte Global Network

Tel Aviv, Israel

March 23, 2022

We have served as the Company's auditor since 2020.



Kost Forer Gabbay & Kasierer
144 Menachem Begin Road, Building A,
Tel-Aviv 6492102, Israel

Tel: +972-3-6232525
Fax: +972-3-5622555
ey.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ELTEK LTD.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of operations, comprehensive income, shareholders' equity and cash flows of Eltek Ltd. and subsidiaries (the Company) for the year ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of the Company's operations and its cash flows for the year ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Adoption of New Accounting Standard

As discussed in Note 1t to the consolidated financial statements, the company has changed its method for accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842).

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

We have served as the Company's auditor since 2014.
Tel-Aviv, Israel
April 27, 2020

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31,	
		2021	2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	3	9,283	4,735
Trade receivables (net of allowance for doubtful accounts of \$173 and \$214 at December 31, 2021 and December 31, 2020, respectively)	2f	7,021	9,062
Inventories	4	4,893	3,704
Other accounts receivable and prepaid expenses	5	1,384	1,319
Total current assets		22,581	18,820
LONG-TERM ASSETS:			
Severance pay fund	10	66	64
Restricted deposit		226	62
Long-term tax receivables	18	1,013	-
Deferred tax asset, net	18	2,550	-
Operating lease right-of-use assets	11	8,979	8,948
		12,834	9,074
Property and equipment, net	6	7,368	7,263
Total long-term assets		20,202	16,337
Total assets		42,783	35,157

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

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands

	Note	December 31,	
		2021	2020
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Short-term credit and current maturities of long-term debt	7	708	676
Trade payables		4,044	4,452
Other accounts payable and accrued expenses	8	3,577	3,831
Short-term operating lease liabilities	11	931	742
Total current liabilities		9,260	9,701
LONG-TERM LIABILITIES:			
Long-term debt, excluding current maturities	9	3,921	1,495
Accrued severance pay	10	344	338
Deferred tax liabilities, net	18	-	84
Long-term operating lease liabilities	11	8,186	8,272
Total long-term liabilities		12,451	10,189
COMMITMENTS AND CONTINGENT LIABILITIES	12	-	-
SHAREHOLDERS' EQUITY:			
Share capital -			
Ordinary shares of NIS 3.0 par value – Authorized: 10,000,000 shares at December 31, 2021 and December 31, 2020; Issued and outstanding: 5,840,357 shares at December 31, 2021 and December 31, 2020		5,296	5,296
Additional paid-in capital		22,846	22,846
Foreign currency translation adjustments		3,716	3,153
Capital reserves		1,287	1,084
Accumulated deficit		(12,073)	(17,112)
Total shareholders' equity	13	21,072	15,267
Total liabilities and shareholders' equity		42,783	35,157

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands (except per share data)

	Note	Year ended December 31,		
		2021	2020	2019
Revenues	15b	33,823	36,707	34,794
Cost of revenues		(26,926)	(28,969)	(28,787)
Gross profit		6,897	7,738	6,007
Operating expenses:				
Research and development, net		(78)	(2)	(16)
Selling, general and administrative		(4,870)	(4,704)	(4,604)
Operating income		1,949	3,032	1,387
Financial expenses, net	16	(488)	(337)	(440)
Other income (expenses), net	17	41	(16)	923
Income before income taxes		1,502	2,679	1,870
Income tax benefit (expenses), net	18	3,537	(71)	(77)
Net income		5,039	2,608	1,793
Other comprehensive income:				
Foreign currency translation adjustments		563	674	139
Total comprehensive income		5,602	3,282	1,932
Basic and diluted income per ordinary share attributable to Eltek Ltd. shareholders	14	0.86	0.58	0.48

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

U.S. dollars in thousands (except share data)

	Company's shareholders						
	Ordinary shares	Amount	Additional paid-in capital	Accumulated other comprehensive income	Capital reserves	Accumulated deficit	Total
Balance as of January 1, 2019	2,028,552	1,985	17,270	2,340	800	(21,513)	882
Issuance of shares in rights offering, net	2,351,716	1,979	1,313	-	-	-	3,292
Share-based compensation	-	-	-	-	141	-	141
Transaction with controlling shareholder	-	-	-	-	22	-	22
Comprehensive income:							
Foreign currency translation adjustments	-	-	-	139	-	-	139
Net income	-	-	-	-	-	1,793	1,793
Balance as of December 31, 2019	4,380,268	3,964	18,583	2,479	963	(19,720)	6,269
Issuance of shares in rights offering, net	1,460,089	1,332	4,263	-	-	-	5,595
Share-based compensation	-	-	-	-	121	-	121
Comprehensive income:							
Foreign currency translation adjustments	-	-	-	674	-	-	674
Net income	-	-	-	-	-	2,608	2,608
Balance as of December 31, 2020	5,840,357	5,296	22,846	3,153	1,084	(17,112)	15,267
Share-based compensation	-	-	-	-	203	-	203
Comprehensive income:							
Foreign currency translation adjustments	-	-	-	563	-	-	563
Net income	-	-	-	-	-	5,039	5,039
Balance as of December 31, 2021	5,840,357	5,296	22,846	3,716	1,287	(12,073)	21,072

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	5,039	2,608	1,793
Adjustments required to reconcile net income to net cash flows provided by operating activities:			
Depreciation	1,781	1,592	1,508
Gain on sale of property and equipment	-	(2)	-
Exchange rate of long term loans	-	2	(38)
Share-based compensation	203	121	141
Transaction with controlling shareholder	-	-	22
Changes in deferred income tax assets, net	(2,550)	33	45
Increase in long-term tax receivables	(1,013)	-	-
Increase (decrease) in employee severance benefits, net	(5)	47	36
Decrease (increase) in trade receivables, net	2,260	(956)	(1,277)
Decrease (increase) in operating lease right-of-use assets	261	(5,868)	1,385
Increase (decrease) in operating lease liabilities	(195)	5,942	(1,388)
Decrease (increase) in other receivables and prepaid expenses	(18)	(556)	598
Decrease (increase) in inventories	(1,023)	290	175
Increase (decrease) in trade payables	(451)	(449)	107
Increase (decrease) in other liabilities and accrued expenses	(414)	448	(529)
Net cash provided by operating activities	3,875	3,252	2,578
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(1,535)	(1,082)	(931)
Restricted deposit	(156)	(58)	-
Proceeds from disposals of property and equipment and repayment from insurance	44	-	125
Net cash used in investing activities	(1,647)	(1,140)	(806)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Short-term bank credit, net	(377)	(1,600)	(4,181)
Repayment of short-term loan from shareholder	-	(3,661)	561
Issuance of shares in rights offering, net	-	5,594	3,298
Repayment of long-term loans	(301)	(183)	(891)
Proceeds from long-term loans	3,063	1,141	558
Repayment of property and equipment payables	(261)	(477)	(477)
Net cash provided by (used in) financing activities	2,124	814	(1,132)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONT.)

U.S. dollars in thousands

	Year ended December 31,		
	2021	2020	2019
Effect of exchange rate on cash and cash equivalents	196	181	(4)
Increase in cash and cash equivalents	4,548	3,107	636
Cash and cash equivalents at the beginning of the year	4,735	1,628	992
Cash and cash equivalents at end of the year	9,283	4,735	1,628
SUPPLEMENTAL DISCLOSURES OF CASH FLOW ACTIVITIES:			
Cash paid during the year for:			
Interest	29	163	232
Income taxes	57	37	43
Non-cash activities:			
Purchase of property and equipment in credit	221	666	350
Right-of-use asset recognized with corresponding lease liability	-	-	377

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1- DESCRIPTION OF BUSINESS AND GENERAL

a. General:

- Eltek Ltd. ("the Company") was established in Israel in 1970, and its ordinary shares have been publicly traded on the NASDAQ Capital Market ("NASDAQ") since 1997. Eltek Ltd. and its subsidiaries (Eltek USA Inc. and Eltek Europe GmbH) are collectively referred to as "the Company". As of December 31, 2021, Eltek Europe GmbH is inactive.
- The Company manufactures, markets and sells custom made printed circuit boards ("PCBs"), including high density interconnect, flex-rigid and multi-layered boards. The principal markets of the Company are in Israel, Europe and North America.
- The Company markets its products mainly to the medical technology, defense and aerospace, industrial, telecom and networking equipment industries, as well as to contract electronic manufacturers.
- The Company is controlled by Nistec Golan Ltd ("Nistec Golan"). Nistec Golan is controlled indirectly by Mr. Yitzhak Nissan, who owns, indirectly through Nistec Holdings Ltd., all of the shares of Nistec Ltd and Nistec Golan (Nistec Holdings Ltd. and/or any of its subsidiaries are referred to as "Nistec").

b. Financial covenants:

The Company is required to maintain certain financial covenants, including: (i) adjusted shareholders' equity (excluding certain intangible and other assets) equal to the greater of \$4.5 million or 17% of its consolidated total assets; and (ii) a debt service ratio of 1.5. Debt service ratio is defined as the ratio of EBITDA to current maturities of long-term debt plus interest expenses. The compliance with the financial covenants is measured annually based on the Company's annual audited financial statements. As of December 31, 2021 and 2020, the Company was in compliance with these covenants.

c. Business risks and condition:

- The Company's business is subject to numerous risks including, but not limited to, the impact of currency exchange rates (mainly NIS/US\$), the Company's ability to implement its sales and manufacturing plans, the impact of competition from other companies, the Company's ability to receive regulatory clearance or approval to market its products, changes in regulatory environment, domestic and global economic conditions and industry conditions, and compliance with environmental laws and regulations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 1:- DESCRIPTION OF BUSINESS AND GENERAL (CONT.)

As of December 31, 2021, the Company's working capital amounted to \$13.3 million and its accumulated deficit amounted to approximately \$12.1 million. The Company's liquidity position, as well as its operating performance, may be negatively affected by other financial and business factors, many of which are beyond its control.

- The coronavirus, also known as "COVID-19", has spread across the globe and is impacting worldwide economic activity. Government authorities have implemented emergency measures to mitigate the spread of the virus. The outbreak and the related mitigation measures may have an adverse impact on global economic conditions as well as on the Company's business activities specifically related to possible raw materials shortage, employees' isolation requirements and change in customers' demand for the Company's products. The extent to which the coronavirus may impact the Company's business activities will depend on future developments, such as the duration of the outbreak, travel restrictions, business disruptions, and the effectiveness of actions taken in Israel and other countries to contain and treat the disease. These events are highly uncertain and as such, the Company cannot determine their financial impact at this time.

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**A. Basis of presentation:**

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States ("U.S. GAAP"), followed on a consistent basis.

The Company sells goods directly and through its US subsidiary that function as distributor. The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances including profits from intercompany sales not yet realized outside the Company, have been eliminated upon consolidation.

B. Functional and reporting currency:

The Company's functional currency is the New Israeli Shekel ("NIS"). Transactions denominated in foreign currencies are translated into NIS using the prevailing exchange rates at the date of the transaction. Gains and losses from the translation of foreign currency transactions are recorded in financial income or expenses.

In accordance with ASC 830, assets and liabilities are translated to the reporting currency using the exchange rate at the end of the year. Revenues and expenses are translated into the reporting currency using the average exchange rate for each quarter. Translation adjustments are reported separately as a component of accumulated other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The functional currency of the Company's foreign subsidiaries is the local currency in which each subsidiary operates. The financial statements of the foreign subsidiaries are translated into Eltek Ltd.'s functional currency as follows:

1. Assets and liabilities are translated according to the exchange rate on the consolidated balance sheet date including goodwill arising from the acquisition of the subsidiary.
2. Income and expense items are translated according to the weighted average exchange rate on a quarterly basis.
3. The resulting exchange rate differences are classified as a separate item in shareholders' equity.

C. Exchange rates and linkage bases:

1. Balances linked to the Israeli Consumer Price Index ("CPI"), are recorded pursuant to contractual linkage terms of the specific assets and liabilities.
2. Details of the CPI (2016 base) and the representative exchange rates are as follows:

	Israeli CPI Points	Exchange rate of one US dollar NIS	Exchange rate of one Euro NIS
December 31, 2021	103.9	3.110	3.520
December 31, 2020	101.1	3.215	3.944
December 31, 2019	101.8	3.456	3.878
		%	
December 31, 2021	2.8	(3.3)	(10.8)
December 31, 2020	(0.7)	(7.0)	1.7
December 31, 2019	0.6	(7.8)	(10.0)

D. Use of estimates:

The preparation of the consolidated financial statements in accordance with U.S. GAAP requires the management of the Company to make estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the useful lives of property and equipment, allowance for doubtful accounts, deferred tax assets, inventory write-offs, other contingencies and share-based compensation costs. Actual results could differ from these estimates.

E. Cash and cash equivalents:

Cash and cash equivalents are highly-liquid investments which include short-term bank deposits with an original maturity of three months or less from deposit date and which are not restricted by a lien.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

F. Trade accounts receivable:

Trade accounts receivable are recorded at the invoiced amount and do not bear interest. Amounts collected on trade accounts receivable are included in net cash provided by operating activities in the consolidated statements of cash flows. The Company maintains an allowance for doubtful accounts for estimated losses inherent in its accounts receivable portfolio.

The allowance for doubtful accounts receivable is calculated on the basis of specific identification of customer balances, and a general allowance according to the Company's policy. The allowance is determined based on management's estimate of the aged receivable balance considered uncollectible, based on historical experience, aging of the receivable and information available about specific customers, including their financial condition and volume of their operations.

The activity in the allowance for doubtful accounts is as follows:

	Year ended December 31,		
	2021	2020	2019
Opening balance	214	227	170
Provision for doubtful accounts	3	81	71
Customers write-offs/collection during the year	(52)	(111)	(31)
Foreign currency translation adjustments	8	17	17
Closing balance	173	214	227

G. Inventories:

Inventories are recorded at the lower of cost or net-realizable value. Cost is determined on the weighted average basis for raw materials. For work in progress and finished goods, the cost is determined pursuant to calculation of accumulated actual direct and indirect costs.

The Company periodically evaluates the inventory quantities on hand relative to historical and projected sales volumes, current and historical selling prices and contractual obligations to maintain certain levels of parts. Based on these evaluations, inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, excess inventories, market prices lower than cost and adjusted revenue forecasts.

H. Severance pay:

The Company's liability for its Israeli employees severance pay is calculated pursuant to Israel's Severance Pay Law based on the most recent salary of the employees multiplied by the number of years of employment, as of the balance sheet date (the "Shut Down Method"). Employees are entitled to one month's salary for each year of employment or a portion thereof.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The Company has an approval from the Israeli Ministry of Labor and Social Welfare, pursuant to the terms of Section 14 of the Israeli Severance Pay Law, 1963, according to which the Company's current deposits in the pension fund and/or with the insurance company exempt it from any additional severance obligations to the employees for whom such depository payments were made.

For certain non-management employees, the Company deposits 72% of its liability for severance obligations with a pension fund for such employees. Assets held for employees' severance payments represent contributions to insurance policies and deposits to a central severance pay fund and are recorded at their current redemption value.

I. Property and equipment:

Property and equipment are stated at cost, net of accumulated depreciation and impairment losses. Depreciation is computed by the straight-line method over the estimated useful lives of the assets at the following annual rates:

	%
Machinery and equipment	5-33
Leasehold improvements	6-33
Motor vehicles	10-15
Office furniture and equipment	6-15

Machinery and equipment purchased under capital lease arrangements are recorded at the present value of the minimum lease payments at lease inception. Such assets and leasehold improvements are depreciated and amortized respectively, using the straight-line method over the shorter of the lease term or estimated useful life of the asset.

Impairment of long-lived assets:

The Company's long-lived assets (assets group) to be held or used, including right of use assets and intangible assets that are subject to amortization are reviewed for impairment in accordance with ASC 360, "Property, Plant, and Equipment" whenever events or changes in circumstances indicate that the carrying amount of a group of assets may not be recoverable. Recoverability of a group of assets to be held and used is measured by a comparison of the carrying amount of the group to the future undiscounted cash flows expected to be generated by the group. If such group of assets is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values and third-party independent appraisals, as considered necessary. During the years ended December 2021, 2020 and 2019, the Company did not record any impairment charges attributable to long-lived assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**K. Income taxes:**

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes." This ASC prescribes the use of the liability method whereby deferred tax assets and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

The Company establishes reserves for uncertain tax positions based on an evaluation of whether the tax position is "more likely than not" to be sustained upon examination. The Company records interest and penalties pertaining to its uncertain tax positions in the financial statements as income tax expense.

L. Accounting for share-based compensation:

The Company accounts for share-based compensation in accordance with ASC 718, "Compensation-Stock Compensation".

ASC 718 requires companies to estimate the fair value of share-based payment awards on the date of grant using an option-pricing model. The value of the portion of the share-based payment award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company's consolidated income statement.

In the fourth quarter of 2021, the Company changed its policy for recognizing share-based compensation expense for graded-vesting awards with service conditions only, from the accelerated attribution method to the straight-line attribution method. The Company views these awards as single awards and believes that the straight-line attribution method more accurately reflects the pattern of service provided by its employees versus the accelerated attribution method which significantly front loads the share-based compensation expense and does not appropriately match the expense with the services provided. In addition, based on analysis, the Company believes the straight-line attribution method for share-based compensation expense for service condition-only awards is the predominant method used by its peers in the industry and other Israeli companies applying US GAAP. The Company has concluded that the straight-line attribution method for share-based compensation is a preferable accounting policy in accordance with ASC 250, Accounting Changes and Error Corrections and has applied this change prospectively. The impact from the change in accounting policy for periods prior to January 1, 2021 was immaterial.

During the years ended December 31, 2021, 2020 and 2019, the Company recognized share-based compensation expenses related to employee share options in the amounts of \$203, \$121 and \$141, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

The Company calculates the fair value of share options on the date of grant using the Black Scholes option pricing model, whereas the fair value of restricted share units is based on the closing market value of the underlying shares at the date of grant, and the expense is recognized over the requisite service period of each individual grant using the straight-line attribution method. Forfeitures are accounted for as they occur.

The Black-Scholes option-pricing model requires the Company to make several assumptions, including the value of the Company's ordinary shares, expected volatility, expected term, risk-free interest rate and expected dividends. The Company evaluates the assumptions used to value option awards upon each grant of share options.

Expected volatility was calculated based on actual historical stock price movements. The expected option term was calculated based on the simplified method, which uses the midpoint between the vesting date and the contractual term, as the Company does not have sufficient historical data to develop an estimate based on participant behavior. The risk-free interest rate was based on the U.S. treasury bonds yield with an equivalent term. The Company has not paid dividends and has no foreseeable plans to pay dividends. The assumptions used to determine the fair value of the share-based awards are management's best estimates and involve inherent uncertainties and the application of judgment.

The following assumptions were used in the B&S option pricing model for the three year period ended December 31, 2021:

	2021	2020	2019
Dividend yield	0%	0%	0%
Expected volatility	76%-79%	86%	76%
Risk-free interest	0.7%-1.3%	0.51%	1.47%
Expected term	6.25 years	7 years	7 years
Forfeiture rate	0%	0%	0%

M. Revenue recognition:

The Company generates its revenues mainly from sales of custom-made PCBs. The Company also generates a limited amount of revenues from a financed R&D project.

Revenues from the Company's contracts with customers are recognized using the five-step model in ASC 606 - "Revenue from Contracts with Customers" ("ASC 606"). At first, the Company determines if an agreement with a customer is considered to be a contract to the extent it has a commercial substance, it is approved in writing by both parties, all rights and obligations including payment terms are identifiable, the agreement between the parties creates enforceable rights and obligations, and collectability in exchange for goods that will be transferred to the customer is considered as probable. The Company then assesses the transaction price for a contract in order to determine the consideration the Company expects to receive for satisfying the performance obligations called for in the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

For the Company's financed R&D project, where the Company's performance does not create an asset with an alternative use, the Company recognizes revenue over performance time because of continuous transfer of control to the customer. For these performance obligations that are satisfied over time, the Company generally recognizes revenue using an input method with revenue amounts being recognized proportionately as costs are incurred relative to the total expected costs to satisfy the performance obligation. The Company believes that costs incurred as a portion of total estimated costs is an appropriate measure of progress towards satisfaction of the performance obligation since this measure reasonably depicts the progress of the work effort and the Company has the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, contracts executed include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged, the manner, and the terms of settlement, including in cases of termination for convenience. Project costs include mainly related labor.

Estimated gross profit from the project may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit are recorded in results of operations when they are reasonably determinable by management, on a cumulative catch-up basis.

Revenues for performance obligations that are not recognized over time are recognized at the point in time when control is transferred to the customer (which is generally upon delivery) and include mainly revenues from the sales of custom-made PCBs. The Company generally does not provide a right of return to its customers. For performance obligations that are satisfied at a point in time, the Company evaluates the point in time when the customer can direct the use of, and obtain the benefits from, the products. Shipping and handling costs are not considered performance obligations and are included in cost of revenues as incurred.

Unbilled accounts receivables

In certain Company contracts, contractual billings do not coincide with revenue recognized on the contract. Unbilled accounts receivables are recorded when revenue recognized on the contract exceeds billings, pursuant to contract provisions, and become billable upon certain criteria being met. Unbilled accounts receivables, for which the Company has the unconditional right to consideration, totaled \$378,000 and \$206,000 as of December 31, 2021 and 2020, respectively, and are included in the accounts receivable balance.

N. Earnings per ordinary share:

Basic net earnings per share are computed based on the weighted average number of ordinary shares outstanding during each year. Diluted net earnings per share is computed based on the weighted average number of ordinary shares outstanding during each year, plus dilutive potential ordinary shares considered outstanding during the year, in accordance with ASC 260, "Earnings Per Share." Certain of the Company's outstanding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

share options have been excluded from the calculation of the diluted earnings per share because such options are anti-dilutive.

O. Concentration of credit risk:

Financial instruments that may subject the Company to significant concentrations of credit risk consist principally of cash and trade accounts receivable. Cash is deposited with major financial institutions in Israel, Europe and the United States.

The Company performs ongoing credit evaluations of the financial condition of its customers. The risk of collection associated with trade receivables is reduced by the large number and geographical dispersion of the Company's customer base, and the Company's policy of obtaining credit evaluations of the financial condition of certain customers, requiring collateral or security with respect to certain receivables, or purchase of insurance for certain other receivables.

P. Research and development costs:

Research and development costs incurred in the process of developing product improvements or new products, are charged to expenses as incurred.

Q. Commitments and contingencies:

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

R. Fair value measurements:

ASC 820, "Fair Value Measurement and Disclosure" clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

- Level 1 - Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 - Significant other observable inputs based on market data obtained from sources independent of the reporting entity.
- Level 3 - Unobservable inputs which are supported by little or no market activity.

As of December 31, 2021, 2020 and 2019, the Company did not have any derivative instruments, measured at fair value on a recurring or nonrecurring basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

S. Comprehensive income (loss):

The Company accounts for comprehensive income (loss) in accordance with ASC 220, "Comprehensive Income". ASC 220 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. Comprehensive income generally represents all changes in shareholders' equity (deficiency) during the period except those resulting from investments by, or distributions to, shareholders.

The Company has determined that its items of comprehensive income (loss) relate to unrealized gain (loss) from foreign currency translation adjustments.

The total accumulated other comprehensive income, net was comprised as follows:

	Year ended December 31,		
	2021	2020	2019
Foreign currency translation adjustments	563	674	139
Total accumulated other comprehensive income	563	674	139

T. Leases:

In accordance with ASU No. 2016-02, Leases (ASC 842), the Company determines if an arrangement is a lease and the classification of that lease at inception based on: (1) whether the contract involves the use of a distinct identified asset, (2) whether the Company obtains the right to substantially all the economic benefits from the use of the asset throughout the period, and (3) whether the Company has a right to direct the use of the asset.

ROU assets and lease liabilities are recognized at commencement date based on the present value of remaining lease payments over the lease term. ROU assets are initially measured at amounts, which represent the discounted present value of the lease payments over the lease, plus any initial direct costs incurred. The lease liability is initially measured based on the discounted present value of remaining lease payments over the lease term. For this purpose, the Company considers only payments that are fixed and determinable at the time of commencement. The implicit rate within the operating leases is generally not reasonably determinable, therefore, the Company uses the Incremental Borrowing Rate ("IBR") based on the information available at commencement date in determining the present value of lease payments. The Company's IBR is estimated to approximate the interest rate for collateralized borrowing with similar terms and payments and in economic environments where the leased asset is located.

Certain leases include options to extend or terminate the lease. An option to extend the lease is considered in connection with determining the ROU asset and lease liability when it is reasonably certain that the Company will exercise that option. An option to terminate is considered unless it is reasonably certain that the Company will not exercise the option.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**U. Impact of recently issued and adopted accounting standards:**

In December 2019, the FASB issued ASU No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes ("ASU 2019-12"), which is intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This standard was effective for the Company beginning January 1, 2021 and was applied on a modified retrospective basis. This standard did not have a material impact on the Company's financial statements and disclosures.

V. New accounting pronouncements not yet effective:

In March 2020, the FASB issued Accounting Standards Update No. 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" ("ASU 2020-04"), which provides optional expedients and exceptions for applying GAAP to contracts, hedging relationships and other transactions affected by the discontinuation of the London Interbank Offered Rate ("LIBOR") or by another reference rate expected to be discontinued because of reference rate reform. The guidance was effective beginning March 12, 2020 and can be applied prospectively through December 31, 2022. In January 2021, the FASB issued Accounting Standards Update 2021-01, "Reference Rate Reform (Topic 848): Scope" ("ASU 2021-01"), which clarified the scope and application of the original guidance. We plan to adopt ASU 2020-04 and ASU 2021-01 when LIBOR is discontinued. We are currently evaluating the potential impact of adopting this guidance, but do not expect it to have a material impact on our consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, Earnings Per Share (Topic 260), Debt-Modifications and Extinguishments (Subtopic 470-50), Compensation-Stock Compensation (Topic 718), and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40). The new ASU addresses issuer's accounting for certain modifications or exchanges of freestanding equity-classified written call options. This amendment is effective for all entities, for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted. The Company is currently evaluating the impact this new guidance will have on its financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2-- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

W. Reclassifications:

Certain amounts in the notes to prior years consolidated financial statements have been reclassified to conform with current year presentation. The reclassification had no effect on previously reported consolidated balance sheets, consolidated statements of comprehensive income (loss) and consolidated statements of cash flows.

NOTE 3-- CASH AND CASH EQUIVALENTS

	December 31,	
	2021	2020
Denominated in U.S. dollars	4,541	3,920
Denominated in NIS	2,546	166
Denominated in Euro	2,196	649
	<u>9,283</u>	<u>4,735</u>

NOTE 4-- INVENTORIES

	December 31,	
	2021	2020
Raw materials	2,667	1,821
Work-in-progress	1,867	1,348
Finished goods	359	535
	<u>4,893</u>	<u>3,704</u>

During the years ended December 31, 2021, 2020 and 2019, the Company recorded inventory write-offs in the amounts of \$530, \$588 and \$788, respectively. Such write-offs were included in cost of revenues.

NOTE 5-- OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2021	2020
Prepaid expenses	586	619
Receivables from government authorities	576	568
Receivables from employees	9	6
Others	213	126
	<u>1,384</u>	<u>1,319</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 6- PROPERTY AND EQUIPMENT, NET

	December 31,	
	2021	2020
Cost:		
Machinery and equipment	43,174	40,268
Leasehold improvements	10,144	9,656
Motor vehicles	84	81
Office furniture and equipment	912	869
	<u>54,314</u>	<u>50,874</u>
Accumulated depreciation:		
Machinery and equipment	(36,463)	(33,892)
Leasehold improvements	(9,701)	(8,991)
Motor vehicles	(61)	(56)
Office furniture and equipment	(721)	(672)
	<u>(46,946)</u>	<u>(43,611)</u>
Depreciated cost	<u>7,368</u>	<u>7,263</u>

Depreciation expense for the years ended December 31, 2021, 2020 and 2019 were \$1,781, \$1,591 and \$1,508, respectively.

NOTE 7- SHORT-TERM CREDIT AND CURRENT MATURITIES OF LONG-TERM DEBT

Banks:

	Annual interest rate at	December 31,	
	December 31, 2021	2021	2020
In NIS bears interest rate of Prime+0.85%	2.45%	-	373
Long-term debt from banks in NIS bears interest of Prime+1.5% to Prime+1.75%	3.1% - 3.35%	708	303
		<u>708</u>	<u>676</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 8:- OTHER ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	December 31,	
	2021	2020
Accrued payroll including amounts due to government authorities	1,077	994
Provision for vacation and other employee benefits	1,664	1,872
Accrued expenses	355	441
Provision for contingent liabilities (Note 12c)	97	117
Other liabilities	384	407
	<u>3,577</u>	<u>3,831</u>

NOTE 9:- LONG-TERM DEBT, EXCLUDING CURRENT MATURITIES

	Annual interest rate at	December 31,	
	December 31, 2021	2021	2020
Linkage terms:			
NIS	3.1% - 3.35%	4,644	1,659
Euro		-	206
		<u>4,644</u>	<u>1,865</u>
Less - current maturities		<u>(723)</u>	<u>(370)</u>
		<u>3,921</u>	<u>1,495</u>

Minimum future payments as of December 31, 2021 due under the long-term (includes liabilities associated with equipment purchasing) debts are as follows:

	Long-term loan
2022	723
2023	794
2024	686
2025	524
2026 and after	<u>1,917</u>
	<u>4,644</u>

Long-term debt includes liabilities associated with equipment purchases in the amounts of \$11 and \$206 as of December 31, 2021 and 2020, respectively, and current maturities of long-term debt of \$15 and \$67 as of December 31, 2021 and 2020, respectively. The current maturities are classified to the trade payable balance as of December 31, 2021 and 2020, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 10:- EMPLOYEE SEVERANCE BENEFITS**

Under Israeli law and labor agreements, the Company is required to make severance and pension payments to retired, dismissed or resigned employees.

- a. The Company has an approval from the Israeli Ministry of Labor and Social Welfare, pursuant to the terms of Section 14 of the Israeli Severance Pay Law, 1963, according to which the Company's current deposits in the pension fund and/or with the insurance company exempt it from any additional severance obligations to the employees for whom such depository payments were made.
- b. The Company's employees participate in a pension plan or individual insurance policies that are purchased by them. The Company's liability for severance obligations for the employees employed for one year or more is discharged by making regular deposits with a pension fund or the insurance policies. Under Israeli law, there is no liability for severance pay in respect of employees who have not completed one year of employment. The amount deposited with the pension fund or the insurance policies is based on salary components as prescribed in the employment agreement. The custody and management of the amounts so deposited are independent of the Company and accordingly, such amounts funded and related liabilities are not reflected in the balance sheet.

For non-management employees, the Company deposits 72% of its liability for severance obligations with a pension fund for such employees, and upon completion of one year of employment with the Company, it makes a one-time deposit with the pension fund for the remaining balance. The Company deposited to individual severance fund according to section 14 of the Israeli severance pay law \$710 and \$708 in 2021 and 2020, respectively.

- c. Expenses (income) recorded in respect of the unfunded liability for employee severance payments for the years ended December 31, 2021, 2020, and 2019 were \$5, \$57 and \$(20), respectively.

NOTE 11:- LEASES

The Company entered into operating leases primarily for offices and motor vehicles. The leases have remaining lease terms of up to 5.2 years, some of which may include options to extend the leases for up to an additional 5 years. On June 30, 2020, the Company signed a new agreement for its current office and manufacturing facilities lease which originally was to end in 2022. The new agreement is for five years starting in 2022 with an option to extend the lease by another five years until 2032. The Company treated the new agreement as an extension and a modification of its current operating lease as it does not grant the Company any additional right of use. In addition, the Company is of the opinion that it is reasonably certain that it will exercise the additional five years option starting in 2027. Accordingly, the Company re-measured the lease liability based on the remaining lease term as of the modification date using the incremental borrowing rate at the effective date of the modification.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 11:- LEASES (CONT.)

The Company also elected the practical expedient (by class of underlying asset) to not separate lease and non-lease components and instead to account for each separate lease component and the non-lease components associated with that lease component as a single lease component for its leased motor vehicles.

- a. The components of operating lease costs were as follows:

	Year ended December 31,		
	2021	2020	2019
Operating lease cost	1,397	1,260	1,245
Sublease income	-	-	(17)
Total net lease costs	<u>1,397</u>	<u>1,260</u>	<u>1,228</u>

- b. Supplemental balance sheet information related to operating leases is as follows:

	As of December 31,	
	2021	2020
Operating lease ROU assets	8,979	8,948
Operating lease liabilities, current	931	742
Operating lease liabilities, long-term	8,186	8,272
Weighted average remaining lease term (in years)	3.90	3.99
Weighted average discount rate	5.23%	5.30%

- c. Future lease payments under operating leases as of December 31, 2021, are as follows:

	As of December 31, 2021
2022	1,411
2023	1,295
2024	1,147
2025	1,108
2026 -2032	<u>6,987</u>
Total undiscounted lease payments	11,948
Less: imputed interest	<u>(2,831)</u>
Present value of lease liabilities	<u>9,117</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Pledges:

1. The Company has pledged certain items of its equipment and the rights to any insurance claims on such items to secure its debts to banks, as well as placed floating liens on all of its remaining assets in favor of the banks.
2. The Company has also pledged machines to secure its indebtedness to certain suppliers that provided financing for such equipment.

b. Indemnification agreement:

The Company entered into indemnification agreements with each of its directors and officers and undertook to enter into the same agreement with future directors and officers. Such indemnification amount will not exceed: (i) the value of 25% of the Company's net equity according to the audited or reviewed financial statement known at the time the request for indemnification was submitted; or (ii) \$3,000,000, whichever is greater.

The Israeli Companies Law provides that an Israeli company cannot exculpate an office holder from liability with respect to a breach of his or her duty of loyalty. If permitted by its articles of association, a company may exculpate in advance an officer from his or her liability to the company, in whole or in part, with respect to a breach of his or her duty of care. However, a company may not exculpate in advance a director from his or her liability to the company with respect to a breach of his duty of care with respect to distributions.

The Company's articles of association allow it to exculpate any office holder from his or her liability for breach of duty of care, to the maximum extent permitted by law, before or after the occurrence giving rise to such liability.

c. Contingent Liabilities:

Environmental Related Matters

In connection with the change of control of the Company that resulted from Nistec's acquisition of a controlling stake in the Company, Israeli law required the Company to obtain a new business permit in order to continue operating its business. The Company submitted an application for this permit and received a permit until 2099. The new permit is subject to certain conditions, especially certain conditions imposed by the Israeli Ministry of Environmental Protection. Compliance with these conditions may be costly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 12:- COMMITMENTS AND CONTINGENT LIABILITIES (CONT.)

In March 2019, representatives of the Ministry of Environmental Protection inspected the Company's premises and as a result issued a warning of a breach of the Clean Air Law, 5768-2008 and a warning of a breach of the Hazardous Materials Law (1993). The Company was invited to a hearing at the Ministry during August 2019. During May 2020 and July 2020, representatives of the Ministry inspected the premises again. In September 2020 the Ministry issued a warning related to an alleged breach of the Clean Air Law, the Hazardous Materials Law (1993), the Water Law and the Business Permit Law. The Company attended another hearing at the Ministry on November 9, 2020. Following that hearing, the district manager issued a protocol stating that he will recommend that the Ministry impose fines on the Company. The Company requested that the district manager and Ministry reconsider the district manager's decision, taking into account the corrective measures the Company has taken. On August 2021 the Company received a letter from the Ministry and was asked about the Company's sales turnover in order to decide the amount of the fine that will be imposed for the breach of the Hazardous Materials Law (1993).

The Company recorded a provision according to its legal advisor's opinion.

Employee related matters

In May 2008, June 2019 and November 2019, lawsuits were filed by three employees alleging that they had suffered personal injuries during their employment and they are seeking aggregate financial compensation of approximately \$ 121 for past damages and additional amounts for future lost income, pain and suffering as the court may determine.

In January 2011 and December 2019, five additional employees notified the Company that they allegedly suffered personal injuries during their employment with the Company. Of these five employees, two are seeking compensation of \$1.7 million and the others did not state their claim amount.

The above-mentioned claims were submitted to the Company's insurance company, which informed the Company that it is reviewing the statements of claim without prejudicing its rights to deny coverage.

During the period February 2019 through October 2020, two former employees filed law suits seeking additional payments in connection with their employment with the Company and subsequent termination. The aggregate amount claimed in the two law suits is approximately \$345. The Company recorded a provision according to its legal advisor's opinion.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 13:- SHAREHOLDERS' EQUITY

Share Option Plan:

The Company's 2018 Share Incentive Plan (the "Plan") authorizes the grant of options to purchase shares and restricted shares units ("RSUs") to officers, employees, directors and consultants of the Company and its subsidiaries. Awards granted under the Plan to participants in various jurisdictions may be subject to specific terms and conditions for such grants as may be approved by the Company's board from time to time.

Each option granted under the Plan is exercisable for a period of ten years from the date of the grant of the option or the expiration dates of the option plan. The options primarily vest gradually over four years of employment.

During 2019, 62,662 options were granted (including an adjustment to options previously granted to reflect the dilutive effect of the Company's 2019 rights offering) under the Plan and no options were exercised. During 2020, 16,014 options were granted (including an adjustment to options previously granted to reflect the dilutive effect of the Company's 2020 rights offering) under the Plan and no options were exercised. During 2021, 270,200 options were granted under the Plan and no options were exercised. The total fair value of the options granted is being recognized over a four year vesting period.

As of December 31, 2021, options to purchase 404,733 ordinary shares were outstanding under the Plan, exercisable at an average exercise price of \$5.24 per share. The share-based compensation expense related to employees' equity-based awards, recognized during 2021, 2020 and 2019 was \$203, \$121 and \$141, respectively.

In December 2021, the Company's Compensation Committee and Board of Directors, as applicable, approved the grant of an additional 13,000 options with an exercise price of \$4.18 to an officer.

A summary of employee option activity under the Plan as of December 31, 2021 and changes during the year ended December 31, 2021 are as follows:

	Number of options	Weighted- average exercise price	Weighted- average remaining contractual life (in months)	Aggregate intrinsic value (in thousands)
Outstanding at January 1, 2021	134,533	4.55	96	108
Granted	270,200	5.59	114	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at December 31, 2021	<u>404,733</u>	<u>5.24</u>	<u>105</u>	<u>14</u>
Exercisable at December 31, 2021	<u>120,048</u>	<u>4.51</u>	<u>92</u>	<u>10</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 13:- SHAREHOLDERS' EQUITY (CONT.)

The weighted-average fair value of options granted during the years ended December 31, 2021, 2020 and 2019 were \$5.59, \$4.35 and \$5.12, respectively. The aggregate intrinsic value in the table above represents the total intrinsic value (the difference between the Company's closing share price on the last trading day of the fourth quarter of fiscal 2021 and 2020 and the exercise price, multiplied by the number of in-the-money options). This amount changes based on the fair market value of the Company's share. As of December 31, 2021, there was approximately \$943 of unrecognized compensation costs related to non-vested share-based compensation arrangements granted under the Company's share option plans. This cost is expected to be recognized over a period of up to 3.75 years.

NOTE 14:- BASIC AND DILUTED NET EARNINGS PER SHARE

	Year ended December 31,		
	2021	2020	2019
Numerator:			
Profit attributable to Eltek Ltd shareholders	5,039	2,608	1,793
Denominator:			
Denominator for basic profit per share weighted-average number of shares outstanding	5,840,357	4,495,329	3,734,189
Effect of diluting securities:			
Employee share options	28,205	5,815	128
Denominator for diluted profit per share - adjusted weighted average shares and assumed exercises	5,868,562	4,501,144	3,734,317

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 15:- ENTITY WIDE DISCLOSURES

- a. Customers who accounted for over 10% of the total consolidated revenues:

	Year ended December 31,		
	2021	2020	2019
Customer A - Sales of manufactured products	21.2%	18.9%	19.5%
Customer B - Sales of manufactured products	7.9%	11.6%	11.5%

- b. Revenues by geographic areas:

	Year ended December 31,		
	2021	2020	2019
Israel	18,965	20,792	19,659
North America	6,686	6,009	6,434
Netherlands	4,198	3,808	2,898
India	1,825	3,292	3,809
Others	2,149	2,806	1,994
	<u>33,823</u>	<u>36,707</u>	<u>34,794</u>

NOTE 16:- FINANCIAL EXPENSES, NET

	Year ended December 31,		
	2021	2020	2019
Interest on long-term bank loans	30	16	19
Bank charges and short-term credit	45	178	287
Foreign exchange loss, net	413	127	105
Other financing expenses, net	-	16	29
	<u>488</u>	<u>337</u>	<u>440</u>

NOTE 17:- OTHER INCOME (LOSS), NET

During 2021, the Company had other income, net of \$41, mainly attributable to compensation received relating to an insurance claim.

During 2018, the Company incurred water damage to major equipment in its production facility. The Company replaced a damaged machine with a new machine shortly thereafter, utilizing a \$500 advance payment received from its insurance company. The advance payment was recorded in 2018 as a reduction in the cost of acquiring the new machine and as an offset to some of the loss incurred as a result of the damage. During May 2019, the Company received an additional payment of approximately \$1.0 million from the insurance company, relating to the losses that occurred as a result of this event.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18-- TAXES ON INCOME

- a. Tax laws applicable to the Company:

The Law for the Encouragement of Capital Investments, 1959:

According to the Law, companies are entitled to various tax benefits by virtue of the "preferred enterprise" status granted to part of their enterprises, as implied by this Law. The principal benefits by virtue of the Law are:

Tax benefits and reduced tax rates:

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 68):

In January 2011, the Law for Economic Policy for 2011 and 2012 (Amended Legislation), 2011 ("the Amendment"), was enacted. The Amendment prescribes, among others, amendments in the Law for the Encouragement of Capital Investments, 1959 ("the Law"). According to the Amendment, the benefit tracks in the Law were modified and a flat tax rate applies to the Company's entire preferred income under its status as a preferred company with a preferred enterprise. Commencing from the 2011 tax year, the Company can elect (without possibility of reversal) to apply the Amendment in a certain tax year and from that year and thereafter, it will be subject to the amended tax rates. The tax rates under the Amendment are: 2011 and 2012 - 15% (in development area A - 10%) and in 2013 - 12.5% (in development area A - 7%).

The Company elected to transition to the preferred enterprise track starting from the 2012 tax year and submitted its final decision to the tax authorities. The deferred tax balances were adjusted accordingly on said date.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

On August 5, 2013, the Knesset issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments ("the Amendment"). According to the Amendment, the tax rate on preferred income from a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%).

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73):

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**U.S. dollars in thousands (except share and per share data)****NOTE 18:- TAXES ON INCOME (CONT.)***Accelerated depreciation:*

By virtue of the Law, the Company is eligible for deduction of accelerated depreciation on equipment used by the approved enterprise from the first year of the asset's operation.

Conditions for the entitlement to the benefits:

The above benefits are conditional upon the fulfillment of the conditions stipulated by the Law, regulations published thereunder and the letters of approval for the investments in the approved enterprises, as above. Non-compliance with the conditions may cancel all or part of the benefits and refund of the amount of the benefits, including interest. The managements believe that the Company is meeting the aforementioned conditions.

The Law for the Encouragement of Industry (Taxation), 1969:

The Company has the status of an "industrial company", as defined by this law. According to this status and by virtue of regulations published thereunder, the Company is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Company is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise's development or advancement, to deduct issuance expenses for shares listed for trading, and to file consolidated financial statements under certain conditions.

b. Tax rates applicable to the Company:

1. The Israeli corporate income tax rate is 23%.

As the Company has the status of a preferred enterprise, the income tax rate applied is 16%.

A company is taxable on its real capital gains at the corporate income tax rate in the year of sale.

2. The tax rates of the Company's non-Israeli subsidiaries is 21%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18-- TAXES ON INCOME (CONT.)

- c. Carryforward losses for tax purposes:

As of December 31, 2021 the Company's carryforward operating losses for tax purposes were approximately \$20.4 million. Carryforward capital losses for tax purposes were approximately \$11.1 million.

The Company's carryforward losses for tax purposes and tax credits carryforward do not have expiration dates.

- d. Income tax assessments:

The Company files its income tax return in Israel. Eltek Europe files its income tax returns in Germany and Eltek USA files its income tax return in the United States.

In Israel, the Company has received final tax assessments through the 1995 tax year. Assessments through the 2016 tax year are considered final due to statute of limitations. The Israeli tax returns of the Company may be audited by the Israeli Tax Authorities for the tax years beginning in 2017.

Eltek Europe has received final tax assessments through the 2013 tax year. The tax returns of Eltek Europe remain subject to audit for the tax years beginning in 2014. The tax returns of Eltek USA remain subject to audit for the tax years beginning in 2012.

- e. Profit before tax and taxes on income included in the consolidated statements of comprehensive income:

	Year ended December 31,		
	2021	2020	2019
Income before income tax expense:			
Israel	1,330	2,504	1,741
Foreign jurisdictions	172	175	129
	<u>1,502</u>	<u>2,679</u>	<u>1,870</u>
Current tax expense:			
Israel	-	-	-
Foreign jurisdictions	57	38	32
	<u>57</u>	<u>38</u>	<u>32</u>
Deferred taxes (income) expenses:			
Israel	(3,594)	33	45
	<u>(3,594)</u>	<u>33</u>	<u>45</u>
Income tax (benefit) expense, net	<u>(3,537)</u>	<u>71</u>	<u>77</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18:- TAXES ON INCOME (CONT.)

- f. Reconciliation of the theoretical income tax benefit to the actual income tax expense:

A reconciliation of the theoretical income tax benefit, assuming all income is taxable at the statutory rates applicable in Israel, and the actual income tax expense, is as follows:

	Year ended December 31,		
	2021	2020	2019
Income before income tax expense as reported in the consolidated statements of comprehensive income	1,502	2,679	1,870
Statutory tax rates	23%	23%	23%
Theoretical tax expense calculated	345	616	430
Losses and other items for which a valuation allowance was provided (released)	(3,563)	419	(38)
Realization of carryforward tax losses for which valuation allowance was provided	(261)	(692)	(250)
Tax benefit arising from "Preferred enterprises"	(93)	(303)	(109)
Foreign tax rate differential in subsidiaries	17	(3)	22
Non-deductible items and others	18	34	22
Total	(3,882)	(545)	(353)
Income tax (benefit) expense	(3,537)	71	77

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18-- TAXES ON INCOME (CONT.)

g. Deferred tax assets and liabilities:

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and such amounts for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31,	
	2021	2020
Deferred tax assets:		
Net operating loss carryforwards (in Israel)	3,265	3,284
Capital loss carryforwards (in Israel)	2,549	2,485
Long-term tax receivables	-	1,171
Reserves and other	252	251
Total gross deferred taxes	6,066	7,191
Less valuation allowance	(2,549)	(6,195)
Deferred tax assets, net	3,517	996
Deferred tax liabilities:		
Undistributed income of subsidiaries	(290)	(263)
Property and equipment	(677)	(817)
Total deferred tax liabilities	(967)	(1,080)
Net deferred tax assets (liabilities)	2,550	(84)

The Company has net operating loss carryforward for tax purposes of approximately \$20.4 million, which may be carried forward indefinitely. For the year ended December 31, 2020 the Company established a valuation allowance for deferred tax assets (see above) as it was unable to conclude that it is more-likely-than-not that such deferred tax assets will be realized. As of December 31, 2021 the Company concluded that realization of net deferred assets is more likely than not as required by ASC 740. The Company considered both positive and negative factors. Positive factors include the Company's profit before tax for 2021 and cumulative positive taxable income in recent years, the fact that losses are indefinite in expiration and to a lesser extent, projections for taxable income in the near term. Negative factors considered include the Company's operating losses in earlier years. Weighing all the above, the Company concluded that it is more likely than not that taxable income will be generated and released entirely the valuation allowance related to the accumulated losses and long-term tax receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 18:- TAXES ON INCOME (CONT.)

- h. Accounting for uncertainty in income taxes:

For the twelve-month periods ended December 31, 2021, 2020 and 2019, the Company did not have any unrecognized tax positions and thus, no interest and penalties related to unrecognized tax positions were recorded. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve-month months.

NOTE 19:- FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company's financial instruments at December 31, 2021 and 2020, consisted of cash and cash equivalents, bank deposits, trade and other accounts receivable, other current assets, short-term credit provided by financial institutions, and trade and other payables. The carrying amounts of all the aforementioned financial instruments, at face value or cost-plus accrued interest, approximate fair value due to the short maturity of these instruments linked to the Israeli central bank rate.

These Consolidated Financial Statements do not include any nonrecurring fair value measurements relating to assets and liabilities for which the Company has adopted the provisions of ASC Topic 820.

NOTE 20:- RELATED PARTY BALANCES AND TRANSACTIONS

Nistec, the controlling shareholder of the Company, is also a customer of the Company. The Company sells products to Nistec, pays management fees to Nistec, purchases certain services from Nistec and shares certain expenses with Nistec, for services that it acquires jointly with Nistec. The Company's transactions with Nistec were carried out on an arm's-length basis.

- a. Balances with related parties:

	December 31,	
	2021	2020
Trade accounts receivable	289	92
Trade accounts payable	34	61

- b. Transactions with related parties:

	Year ended December 31,		
	2021	2020	2019
Revenues	682	514	226
Purchases, general and administrative expenses	334	314	323
Interest on loans from controlling shareholder	-	102	121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 20-- RELATED PARTY BALANCES AND TRANSACTIONS (CONT.)

PCB purchases by Nistec - Nistec purchases PCBs from the Company solely to provide assembled boards to its customers. The Company sells to Nistec based on its standard pricing, which may be subject to a discount of up to ten percent (10%). Should the order be for PCBs imported by the Company, the quote reflects the actual price of such PCBs, plus a mark-up of at least twenty percent (20%). Should the order be for PCBs from excess inventory of an original order, the quote will reflect the standard price of such PCBs, with a discount of up to fifty percent (50%) of the price actually paid for such PCBs in the original order (the "Excess Inventory Discount"). The Excess Inventory Discount will apply only to orders from excess inventory of the first original order of a specific PCB (i.e., should a second order of a specific PCBs generate any excess inventory, and Nistec would like to purchase such excess, the Excess Inventory Discount will not be applied to such purchase).

Soldering and assembly services - The Company may acquire soldering services and/or purchasing services from Nistec. Nistec's pricing for its soldering services will be its standard pricing (the "Pricing"), less a five percent (5%) discount. Nistec may charge for Purchasing Services in accordance with the actual costs of the orders, plus a fourteen and a quarter (14.25%) commission, which reflects a five percent (5%) discount, as compared to the commission charged to third parties by Nistec for similar services. Prices of services not included in the Pricing will be negotiated by the parties in good faith (without participation of Mr. Nissan, the Company's controlling shareholder and CEO, or any of his relatives). Nistec standard procedures govern manufacturer warranties and restrictions regarding defective assembled products. In addition to requesting Nistec to provide the Company with a quote for soldering and assembly services, in the event that the Company requires design and/or design services for production of PCBs, it may ask Nistec to provide it with a quote for such services. Nistec may charge for design and/or design services in accordance its standard pricing for such services, less a five percent (5%) discount. The Company's purchases of services under the Soldering, Assembly and Design Services Procedure may not exceed NIS 300 per annum.

Insurance expenditures - The Company may share with Nistec costs of insurance consulting and insurance premiums in the event the Company determines that a joint insurance policy with Nistec will reduce the Company's costs as compared to purchasing insurance separately. Insurance expenditures will be divided between the Company and Nistec as follows: (i) insurance consulting services costs will be divided in proportion to the insurance premiums paid by the Company and Nistec in the preceding year; (ii) the joint insurance premiums will be divided in the proportions indicated by the insurer for each of the Company and Nistec had they purchased the insurance separately. The Company will solicit updated insurance proposals at least bi-annually. The decision to enter into such a joint insurance policy with Nistec will be subject to the approval of the Audit Committee and the Board of Directors of the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 20-- RELATED PARTY BALANCES AND TRANSACTIONS (CONT.)

Employees social activities - The Company may purchase social activities for the benefit of its employees together with Nistec. The cost of such activities will be divided between the Company and Nistec in accordance with the ratio of the number of Company's employees and Nistec employees to whom the applicable activity was directed, regardless of actual participation.

Marketing activities - The Company may purchase services together with Nistec. Marketing costs will be divided between the Company and Nistec as follows: (i) to the extent the portion of the marketing material applicable to the Company can be quantified, costs will be divided accordingly; (ii) in the event that such costs cannot be quantified, each of Nistec and the Company will bear 50% of the marketing costs.

Managements fees- In September 2019, the Company's Audit Committee, Compensation Committee and Board of Directors, as applicable, approved the terms of the amended Management Agreement. This amended Management Agreement was approved by the Company's shareholders in the annual general meeting, held on December 5, 2019. Nistec is entitled to a monthly management fee of NIS 90 (\$28).

Subject to Company's reimbursement policy approved by the Audit Committee on May 15, 2016, Mr. Nissan will receive reimbursement of travel expenses (other than food and beverage expenses) while traveling internationally on behalf of the Company, provided that such reimbursement will not exceed an aggregate amount of NIS 10 per calendar quarter.

Mr. Nissan will be reimbursed for food and beverage expenses while traveling internationally on behalf of the Company, against receipts, in accordance with the Israeli Income Tax Regulations (Deduction of Certain Expenses) 1972.

In addition, the Company's shareholders in the annual general meetings held on December 5, 2019 and October 29, 2020 approved the following:

- a. The extension of the Directors and Officers Indemnity Agreement with Mr. Yitzhak Nissan.
- b. The extension of the Exculpation Letter for an additional three (3) year period
- c. The application of the Company's directors and officers liability insurance policy with respect to Mr. Yitzhak Nissan
- d. The revised terms of employment of Yitzhak Nissan's daughter who is employed by the Company as a special project manager.

Loans and guarantees from Nistec - see Note 1.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

ELTEK LTD.

By: /s/ Eli Yaffe
Name: Eli Yaffe
Title: Chief Executive Officer

By: /s/ Ron Freund
Name: Ron Freund
Title: Chief Financial Officer

Dated: March 23, 2022

Rights Attached to Shares

Our authorized share capital consists of NIS 30,000,000 divided into 10,000,000 ordinary shares, nominal value of NIS 3.00 each. All outstanding ordinary shares are validly issued, fully paid and non-assessable. The rights attached to the ordinary shares are as follows:

Dividend rights. Holders of our ordinary shares are entitled to the full amount of any cash or share dividend subsequently declared. The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of its profits. If after 30 days a dividend has been declared and it is still unclaimed, the dividend may be invested or otherwise used by us for our own account, as we deem fit, until such dividend is claimed; and we will not be deemed a trustee in respect thereof. We are not obliged to pay, and may not pay interest on declared but unpaid dividends if the shareholders entitled to such dividends fail to collect the same or to provide us the necessary information for the payment thereof, or if we are for any other reason unable to pay the dividend to such shareholder.

Voting rights. Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Unless otherwise required by law or our articles of association, all resolutions require approval of no less than a majority of the voting rights represented at the meeting in person or by proxy and voting thereon.

Generally, at each annual meeting of shareholders, directors are elected by a vote of the holders of a majority of the voting power represented and voting on the matter. All the members of our board of directors (except our external directors) may be reelected upon completion of their term of office.

Rights to share in our profits. Our shareholders have the right to share in our profits distributed as a dividend and any other permitted distribution.

Rights to share in surplus in the event of liquidation. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Changing Rights Attached to Shares

According to our articles of association, in order to change the rights attached to any class of shares, such change must be adopted by a resolution in writing by the holders of the majority of the issued shares of such class or by an ordinary resolution at a separate general meeting of the holders of the affected class.

Limitations on the Rights to Own Securities in Our Company

Neither our memorandum of association nor our articles of association nor the laws of the State of Israel restrict in any way the ownership or voting of shares by non-residents, except with respect to subjects of countries that are in a state of war with Israel.

Provisions Restricting Change in Control of Our Company

Full Tender Offer. A person wishing to acquire shares of a publicly traded Israeli company who would as a result hold over 90% of the company's issued and outstanding share capital, or of a certain class of shares, is required by the Israeli Companies Law to make a full tender offer to all of the company's shareholders for the purchase of all of the remaining issued and outstanding shares of the company, or the class of shares, as the case may be. If: (i) the shareholders who do not accept the offer hold less than 5% of the issued share capital of the company, or of the relevant class of shares, and the majority of shareholders having no personal interest in the offer accepted it; or (ii) shareholders who do not accept the offer hold less than 2% of the issued share capital of the company; then all of the shares that the acquirer offered to purchase will be transferred to the acquirer by operation of law. However, the shareholders may petition the court to determine the consideration for the acquisition if the consideration is less than the shares' fair value (unless the acquirer has specified in the tender offer that any shareholder tendering his shares will not be entitled to such appraisal rights). If the dissenting shareholders hold more than 5% of the issued and outstanding share capital of the company, or of the relevant class of shares, as the case may be, the acquirer may not acquire additional shares of the company from shareholders who accepted the tender offer if following such acquisition the acquirer would own over 90% of the company's issued and outstanding share capital, or of the relevant class of shares.

Special Tender Offer. An acquisition of control bloc of shares in a public Israeli company must be made by means of a special tender offer if as a result of the transaction the acquirer could become a holder of 25% or more of the voting rights in the company, unless one of the exemptions in the Israeli Companies Law is met. This rule does not apply if there is already another holder of at least 25% of the voting rights in the company. Similarly, an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser could become a holder of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, unless one of the exemptions is met. Such exemptions include: (a) acquisition of shares issued pursuant to a private placement approved by a general meeting of the company as a private placement intended to provide the purchaser with holdings of 25% or more of the voting rights in the company, if there is no other shareholder of the company who holds more than 25% of the voting rights in the company, or with holdings of more than 45% of the voting rights in the company, if there is no other shareholder of the company who holds more than 45% of the voting rights in the company, (b) acquisition of shares from a holder of 25% or more of the voting rights in the company following which the purchaser will hold 25% or more of the voting rights in the company, or (c) acquisition of shares from a holder of 45% or more of the voting rights in the company following which the purchaser will hold 45% or more of the voting rights in the company.

A special tender offer must be extended to all shareholders of a company, but the offeror is not required to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. A special tender offer may be consummated only if (1) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (2) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer (disregarding holders who control the offeror or have a personal interest in the acceptance of the offer or holders of 25% or more of the voting rights of the company, any of their relatives, or corporations controlled by any of the above).

If a special tender offer is accepted, then the purchaser, any corporation controlled by it, or any person or entity controlling it or under common control with the purchaser may not make a subsequent tender offer for the purchase of shares of the target company and may not enter into a merger with the target company for a period of one year from the date of the offer, unless the purchaser or such person or entity undertook to effect such an offer or merger in the initial special tender offer.

Merger. The Companies Law permits merger transactions between Israeli companies, if approved by each party's board of directors and, unless certain requirements are met, the majority of each party's shares voted on the proposed merger at a shareholders meeting convened with prior notice of at least 35 days. A merger is defined as the transfer of all assets and liabilities, including conditional, future, known and unknown debts of the target company to the surviving company, as a result of which the target company is liquidated, and stricken out of the Companies Register.

Since our company was incorporated prior to the entry into effect of the Israeli Companies Law, a merger transaction requires the approval of a special majority of 75% or more of the shareholders voting on the matter (disregarding abstentions) for purposes of the shareholder vote, unless a court rules otherwise, the merger will not be deemed approved if a majority of the votes of shares represented at the shareholders meeting (disregarding abstentions) that are held by any of: (1) parties other than the other party to the merger; (2) parties who hold 25% or more of the voting rights or any means of control or the right to appoint 25% or more of the directors of the other party; or (3) anyone on such parties' behalf, including relatives of such parties and corporations controlled them, vote against the merger. If, however, the merger involves a merger with a company's own controlling party or if the controlling party has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling parties.

If the transaction would have been approved by the shareholders of a merging company but for the separate approval of each class or the exclusion of the votes of certain shareholders as provided above, a court may still approve the merger upon the request of holders of at least 25% of the voting rights of a company, if the court holds that the merger is fair and reasonable, taking into account the appraisal of the value of the parties to the merger and the consideration offered to the shareholders of the company.

Upon the request of a creditor of either party to the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that, as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger, and may further give instructions to secure the rights of creditors.

In addition, a merger may not be consummated until at least 50 days have passed from the date on which a proposal for approval of the merger was filed by each party with the Israeli Registrar of Companies and at least 30 days have passed from the date on which the merger was approved by the shareholders of each party.

Notwithstanding the foregoing, a merger is not subject to the approval of the shareholders of the target company if the target company is a wholly-owned subsidiary of the acquiring company. A merger is not subject to the approval of the shareholders of the acquiring company in any of the following events:

- the merger does not require the alteration of the memorandum or articles of association of the acquiring company;
- the acquiring company would not issue more than 20% of the voting rights thereof to the shareholders of the target company in the course of the merger and no person will become, as a result of the merger, a controlling shareholder of the acquiring company, on a fully diluted basis;
- neither the target company, nor any shareholder that holds 25% of the means of control of the target company is a shareholder of the acquiring company and there is no person that holds 25% or more of the means of control in both companies.

Disclosure of Shareholders Ownership

The Israeli Securities Law and regulations promulgated thereunder do not require a company whose shares are publicly traded solely on a stock exchange outside of Israel, as in the case of our company, to disclose its share ownership in the records of the Israeli Companies Registrar.

Changes in Our Capital

Changes in our capital are subject to the approval of a simple majority of shareholders present and voting at any shareholders meeting.

LIST OF SUBSIDIARIES

We have the following active subsidiaries:

Subsidiary Name	Country/State of Incorporation	Ownership Percentage
Eltek USA Inc.	Delaware	100%
Eltek Europe GmbH	Germany	100%

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Eli Yaffe, certify that:

1. I have reviewed this annual report on Form 20-F of Eltek Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: March 23, 2022

/s/ Eli Yaffe *
Eli Yaffe
Chief Executive Officer
(Principal Executive Officer)

* The originally executed copy of this Certification will be maintained at the company's offices and will be made available for inspection upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended

I, Ron Freund, certify that:

1. I have reviewed this annual report on Form 20-F of Eltek Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: March 23, 2022

/s/ Ron Freund*
Ron Freund
Chief Financial Officer
(Principal Financial Officer)

* The originally executed copy of this Certification will be maintained at the company's offices and will be made available for inspection upon request.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Eltek Ltd. (the "Company") on Form 20-F for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eli Yaffe, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Eli Yaffe *
Eli Yaffe
Chief Executive Officer
(Principal Executive Officer)
Dated: March 23, 2022

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This Certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This Certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Eltek Ltd. (the "Company") on Form 20-F for the period ending December 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Ron Freund, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Ron Freund*
Ron Freund
Chief Financial Officer
(Principal Financial Officer)
Dated: March 23, 2022

* The originally executed copy of this Certification will be maintained at the Company's offices and will be made available for inspection upon request.

This Certification accompanies this Annual Report on Form 20-F pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This Certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act, except to the extent that the Company specifically incorporates it by reference.



CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement No. 333-233136 on Form F-3 and Registration Statement No. 333-23395 on Form S-8 Registration of our report dated March 23, 2022 relating to the consolidated financial statements of Eltek Ltd. (the "Company") appearing in this Annual Report on Form 20-F of the Company for the year ended December 31, 2021.

/s/ Brightman Almagor Zohar & Co.

Brightman Almagor Zohar & Co.

Certified Public Accountants

A firm in the Deloitte Global Network Tel Aviv, Israel

March 23, 2022

תל אביב - משרד ראשי

מרכז עורכי דין 1 תל אביב, ת.ד. 6701101, ת.ד. 16593 תל אביב 6116402 | טלפון: 03-6085555 | info@deloitte.co.il

<p>משרד נצרת מרכז אבן עאמר 9 נצרת, 16100</p> <p>טלפון: 073-3994455 פקס: 073-3994455 info-nazareth@deloitte.co.il</p>	<p>משרד אילת המרכז העירוני ת.ד. 583 אילת, 8810402</p> <p>טלפון: 08-6375676 פקס: 08-6371628 info-ilat@deloitte.co.il</p>	<p>משרד חיפה מעלה השחרור 5 ת.ד. 5648 חיפה, 3105502</p> <p>טלפון: 04-8607333 פקס: 04-8672528 info-haifa@deloitte.co.il</p>	<p>משרד ירושלים קרית המדע 3 מגדל הר חוצבים ירושלים, 914510 ת.ד. 45396</p> <p>טלפון: 02-5018888 פקס: 02-5374173 info-jer@deloitte.co.il</p>
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CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form F-3 (File No. 333-233136), and the related prospectus and to the incorporation by reference in the Registration Statement on Form S-8 (File No. 333-233958) of our report dated April 27, 2020 in respect of the consolidated statements of operations, comprehensive income, cash flows, and shareholders' equity of Eltek Ltd. and subsidiaries for the year ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), which report appears in the Annual Report on Form 20-F for the year ended December 31, 2021 of Eltek Ltd.

/s/ Kost Forer Gabbay & Kasierer
Kost Forer Gabbay and Kasierer
A Member of Ernst & Young Global

Tel-Aviv, Israel

March 23, 2022

Office of the Chief Accountant
Securities and Exchange Commission
100F Street, N. E.
Washington, D.C. 20549

Ladies and Gentlemen:

We have read Eltek Ltd.'s statements included under Item 16F of its Form 20-F dated March 23, 2022 and we agree with such statements contained therein with regard to our firm, except that we are not in a position to agree or disagree with the other statements of the registrant included in Item 16F.

/s/ Kost Forer Gabbay & Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

Tel-Aviv, Israel

March 23, 2022
