Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2015 (Unaudited)

Contents

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

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries
for the three months ended on March 31, 2015.

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

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

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

A. The Group

Payton Planar Magnetics Ltd. ("the Company") and its consolidated subsidiaries: Payton America Inc. ("Payton America"), Himag Planar Magnetics Ltd. ("Himag") and Payton Planar Holdings (1996) Ltd. ("Payton Holdings").

B. The Group's main fields of activity and changes that occurred in the period from January to March 2015

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

On March 09, 2015 – Himag purchased an industrial property in Gloucester, UK, same property Himag previously used to rent. The property area is of 607 m² and its total cost amounts to £435 thousands.
This purchase was financed by an intercompany loan, given by the Company to Himag.
This purchase supports Himag activity in the UK and expected to strengthen the foothold of Himag and Payton Group in Europe. In addition, it will provide the Group a European production site for special projects in Europe.

[1] The financial statements as at March 31, 2015 form an integral part thereof.

C. Principal customers

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

	For the three-month period ended March 31	For the year ended December 31	For the three-month period ended March 31
	2015	**2014**	**2014**
Customer A	19.9%	15.6%	*

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

D. Marketing

The Group is participating in most leading electronic exhibitions. During 2015 the Group participated in

- APEC in Charlotte, USA (March, 2015), PCIM Europe 2015 Exhibition, Nuremberg, Germany (May, 2015), New-Tech Exhibition, Tel-Aviv, Israel (May, 2015) and others.
- In addition, during 2015, the Company initiated several seminars and conferences in the USA.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2015 were USD 9,880 thousand (December 31, 2014 - USD 10,378 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.3.15 will be supplied until December 31, 2015.

2. Financial position

A. Statement of Financial Position as at March 31, 2015

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits **-** these items amounted to a total of USD 16,305 thousand as at March 31, 2015 compared to USD 15,347 thousand as at December 31, 2014 and USD 15,070 thousand as at March 31, 2014. It is to be noted that, deposits at the amount of USD 1,003 thousand and USD 1,005 thousand, as at March 31, 2014 and December 31, 2014, respectively, were, previously, classified as Long-term deposits, and as such were then presented under the non-current assets.

Trade accounts receivable - these amounted to USD 4,698 thousand as at March 31, 2015 compared to USD 5,919 thousand as at December 31, 2014 and USD 3,969 thousand as at March 31, 2014. The increase in this item at the first quarter of 2015, compared to the same quarter last year and the decrease compared to the end of last year is explained mostly by correlation to sales volume changes in the periods near the report date.

Fixed assets - these amounted to USD 12,704 thousand as at March 31, 2015, compared to USD 12,084 thousand as at December 31, 2014 and USD 12,469 thousand as at March 31, 2014. The increase in this item at the first quarter of 2015, compared to December 31, 2014, resulted mainly from purchasing the industrial real-estate property in England (see 1B above).

Liabilities to bank and others (Current & Non-current Liabilities) - amounted to a total of USD 1,922 thousand as at March 31, 2015, compared to USD 2,132 thousand as at December 31, 2014 and USD 3,348 thousand as at March 31, 2014. As at March 31, 2015 these liabilities comprised of a 10 year bank loan in the amount of USD 1,713 thousand (out of which USD 229 thousand are presented as current liabilities) against a mortgage on the real estate property, repayable in monthly payments starting November 2012. The bank loan was taken in order to finance part of the industrial property (in Israel) construction costs. Additional USD 209 thousand represents the contingent consideration against the purchase of Himag Solutions Ltd.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Total 1-3/15	Quarter 10-12/14	Quarter 7-9/14	Quarter 4-6/14	Quarter 1-3/14
Sales revenues	6,185	7,943	6,223	5,866	5,295
Cost of sales	3,955	5,355	4,133	3,682	3,576
Gross profit	*2,230*	*2,588*	*2,090*	*2,184*	*1,719*
Development costs	(220)	(213)	(222)	(278)	(226)
Selling & marketing expenses	(483)	(515)	(464)	(526)	(514)
General & administrative expenses	(671)	(781)	(786)	(723)	(689)
Other income (expenses)	8	(11)	(2)	(2)	-
Operating income	*864*	*1,068*	*616*	*655*	*290*
Finance expenses, net	(83)	(23)	(88)	(18)	(11)
Profit before income taxes	*781*	*1,045*	*528*	*637*	*279*
Income taxes	(178)	(209)	(91)	(128)	(50)
Net profit for the period	*603*	*836*	*437*	*509*	*229*
Other comprehensive income items that will not be transferred to profit &loss					
Remeasurement of defied benefit plan	-	242	-	(100)	-
Total other comprehensive income (loss)	-	242	-	(100)	-
Total comprehensive income for the period	*603*	*1,078*	*437*	*409*	*229*

General Note: The Group is exposed to erosion of the USD in relation to the NIS and to the Euro. Most of the Group's salaries and other operating costs are fixed in NIS. Revaluation of the local Israeli currency drives to an increase in labor costs and other operating costs, thus, negatively affects the operating results of the Company. The average rate of the USD with relation to the NIS in the first quarter of 2015 went up by 12.8% compared to average rate of first quarter 2014 and went up by 10.3% compared to average rate of year 2014. The increase in this rate reflects a decrease in the above-mentioned costs when they are presented in USD.

Sales revenues **-** The Group's sales revenues for the three-month period ended March 31, 2015 were USD 6,185 thousand compared with USD 5,295 thousand in the three-month period ended March 31, 2014. The increase in sales in the first quarter of 2015 resulted mainly from a ramp up in some maturing projects.

Gross profit **-** The Group's gross profit for the three-month period ended March 31, 2015 amounted USD 2,230 thousand (36% of sales) compared with USD 1,719 thousand (32% of sales) in the three-month period ended March 31, 2014. The increase in the gross profit relates mainly due to decrease in labor costs (see general note above) and also due to optimizing production efficiency.

Finance expenses, net **-** The Group's Finance expenses for the three-month period ended March 31, 2015 amounted USD 83 thousand compared with USD 11 thousand in the three-month period ended March 31, 2014. The increase in these expenses resulted mainly from exchange rate differences.

3. <u>Liquidity</u>

A. Liquidity Ratios

The following table presents the financial ratios in the Statement of Financial Position:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	March 31, 2015	**December 31, 2014**	**March 31, 2014**
Current ratio[2]	6.74	5.30	5.87
Quick ratio[3]	5.77	4.57	5.02

B. Operating activities

Cash flows generated from operating activities for the three-month period ended March 31, 2015 amounted USD 1,067 thousand, compared with USD 398 thousand for the three-month period ended March 31, 2014. The increase in this cash flows resulted mostly from the increase in the net profit as well as from other changes, in trade accounts receivable and in trade payables.

C. Investing activities

Cash flows generated from investing activities in the three-month period ended March 31, 2015, amounted USD 2,349 thousand, compared with USD 225 thousand in the three-month period ended March 31, 2014.
During the first quarter of 2015 the cash flows stemmed from proceeds of Short-term bank deposits.

[2] Current ratio calculation – Current assets / Current liabilities
[3] Quick ratio calculation – (Current assets – Inventories) / Current liabilities

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from a long term bank loan (taken during year 2012).

5. External factors effects

Revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Company's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are being affected.
Devaluation of the Euro(€) and Pound(£) in relation to the U.S. Dollar leads to a decrease in Group's assets in those currencies.

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

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

Pursuant to article 12 § 2(3°) of the Royal Decree of 14 November 2007, David Yativ Chairman of the Board of Directors declares, on behalf of and for the account of Payton Planar Magnetics that, as far as is known to him,

a) The financial statements at March 31, 2015 are drawn up in accordance with IFRS and with IAS 34 "Interim Financial Reporting" as adopted by the European Union and present a true and fair view of the equity, financial situation and results of the company.

b) The report gives a true and fair view of the main events of the first three months of year 2015, their impact on the financial statements, the main risk factors and uncertainties for the remaining months of the financial year, as well as the main transactions with related parties and their possible impact on the abbreviated financial statements.

The Company's Board of Directors wishes to thank our shareholders for their continuance trust and belief.
The Company's Board of Directors wishes to extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

Ness Ziona, May 27, 2015.

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

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

Review Report to the Shareholders of Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying financial information of Payton Planar Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of March 31, 2015 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting"*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

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

Conclusion

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

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

May 27, 2015

Condensed Consolidated Interim Statement of Financial Position as at

	Note	March 31 2015 (Unaudited) $ thousands	March 31 2014 (Unaudited) $ thousands	December 31 2014 (Audited) $ thousands
Current assets				
Cash and cash equivalents		**7,840**	6,278	4,692
Short-term deposits		**8,255**	8,155	10,447
Marketable securities held for trading		**210**	637	208
Trade accounts receivable		**4,698**	3,969	5,919
Other accounts receivable		**581**	421	422
Current tax assets		**253**	537	295
Inventory		**3,688**	3,381	3,533
Total current assets		**25,525**	23,378	25,516
Non-current assets				
Long-term deposits		**-**	1,003	1,005
Fixed assets	4	**12,704**	12,469	12,084
Intangible assets		**975**	1,102	1,007
Deferred taxes		**33**	158	33
Total non-current assets		**13,712**	14,732	14,129
Total assets		**39,237**	38,110	39,645

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

Date of approval of the interim financial statements: May 27, 2015

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

	March 31 2015	March 31 2014	December 31 2014
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Liabilities to bank and others	**229**	363	389
Trade payables	**2,265**	2,292	2,991
Other payables	**928**	924	1,075
Employee benefits	**363**	402	358
Total current liabilities	**3,785**	3,981	4,813
Non-current liabilities			
Liabilities to bank and others	**1,693**	2,985	1,743
Employee benefits	**338**	506	313
Deferred tax liabilities	**256**	-	214
Total non-current liabilities	**2,287**	3,491	2,270
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Retained earnings	**19,336**	16,809	18,733
Total equity	**33,165**	30,638	32,562
Total liabilities and equity	**39,237**	38,110	39,645

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Three months ended March 31		Year ended December 31
	2015	**2014**	**2014**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Revenues	**6,185**	5,295	25,327
Cost of sales	**(3,955)**	(3,576)	(16,746)
Gross profit	**2,230**	1,719	8,581
Development costs	**(220)**	(226)	(939)
Selling and marketing expenses	**(483)**	(514)	(2,019)
General and administrative expenses	**(671)**	(689)	(2,979)
Other income (expenses)	**8**	-	(15)
Operating profit	**864**	290	2,629
Finance income	**32**	40	131
Finance expenses	**(115)**	(51)	(271)
Finance expenses, net	**(83)**	(11)	(140)
Profit before income taxes	**781**	279	2,489
Income taxes	**(178)**	(50)	(478)
Profit for the period	**603**	229	2,011
Other comprehensive income items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan, net of taxes	**-**	-	142
Total other comprehensive income	**-**	-	142
Total comprehensive income for the period	**603**	229	2,153
Basic earnings per share (in $)	**0.03**	0.01	0.11

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

Condensed Consolidated Interim Statements of Changes in Equity

	Share capital		Share	Retained	
	Number of shares	$ thousands	premium $ thousands	earnings $ thousands	Total $ thousands
For the three months ended March 31, 2015 (Unaudited)					
Balance at January 1, 2015	17,670,775	4,836	8,993	18,733	32,562
Total comprehensive income for the period					
Profit for the period	**-**	**-**	**-**	**603**	**603**
Total comprehensive income for the period	**-**	**-**	**-**	**603**	**603**
Balance at March 31, 2015	**17,670,775**	**4,836**	**8,993**	**19,336**	**33,165**
For the three months ended March 31, 2014 (Unaudited)					
Balance at January 1, 2014	17,670,775	4,836	8,993	16,580	30,409
Total comprehensive income for the period					
Profit for the period	-	-	-	229	229
Total comprehensive income for the period	-	-	-	229	229
Balance at March 31, 2014	17,670,775	4,836	8,993	16,809	30,638
For the year ended December 31, 2014 (Audited)					
Balance at January 1, 2014	17,670,775	4,836	8,993	16,580	30,409
Total comprehensive income for the year					
Profit for the year	-	-	-	2,011	2,011
Other comprehensive income	-	-	-	142	142
Total comprehensive income for the year	-	-	-	2,153	2,153
Balance at December 31, 2014	17,670,775	4,836	8,993	18,733	32,562

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

Condensed Consolidated Interim Statements of Cash Flows

	Three months ended March 31		Year ended December 31,
	2015	**2014**	**2014**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Operating activities			
Profit for the period	**603**	229	2,011
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation and amortization	**259**	250	1,021
Income taxes	**178**	50	478
Capital (gain) loss on sale of equipment	**(8)**	-	3
Changes in the fair value of contingent consideration	**-**	-	12
Finance expenses, net	**48**	8	158
Increase in employee benefits	**30**	65	5
Decrease (increase) in trade accounts receivable	**1,221**	61	(1,889)
(Increase) decrease in other accounts receivable	**(159)**	26	25
Increase in inventory	**(155)**	(163)	(315)
(Decrease) increase in trade payables	**(730)**	(40)	823
(Decrease) increase in other payables	**(147)**	21	172
Interest received	**38**	6	102
Interest paid	**(17)**	(30)	(118)
Tax paid	**(94)**	(85)	(417)
Tax received	**-**	-	429
Cash flows generated from operating activities	**1,067**	398	2,500
Investing activities			
Proceeds from sale of marketable securities held for trading	**-**	348	772
Proceeds from (investment in) short-term deposits, net	**3,184**	-	(1,271)
Investment in long-term deposits	**-**	-	(1,000)
Investment in fixed assets	**(843)**	(123)	(608)
Proceeds from sale of fixed assets	**8**	-	27
Cash flows generated from (used for) investing activities	**2,349**	225	(2,080)
Financing activities			
Repayment of loan	**(57)**	(88)	(1,353)
Payment of contingent consideration	**(159)**	(140)	(143)
Cash flows used for financing activities	**(216)**	(228)	(1,496)
Net increase (decrease) in cash and cash equivalents	**3,200**	395	(1,076)
Cash and cash equivalents at beginning of the period	**4,692**	5,883	5,883
Effect of exchange rate fluctuations on cash held	**(52)**	-	(115)
Cash and cash equivalents at end of the period	**7,840**	6,278	4,692

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

Note 1 - General

Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992. The address of the Company's registered office is 3 Ha'avoda Street, Ness-Ziona. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). The securities of the Company are registered for trade on the Euronext stock exchange in Brussels.

The condensed consolidated interim financial statements of the Group as at March 31, 2015 comprise the Company and its subsidiaries (together referred as the "Group").

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

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2014 (hereinafter "annual financial statements").
These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on May 27, 2015.

B. Use of estimates and judgments

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

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

Note 3 - Significant Accounting Policies

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

Note 4 - Fixed Assets

On March 09, 2015 Himag Planar Magnetics (hereinafter: "Himag Planar"), a fully owned subsidiary of the Company, purchased an industrial property in Gloucester, UK, same property Himag Planar used previously to rent. The property area is of 607m² and its total cost amounts to GBP 435 thousand (USD 663 thousand).
This purchase was financed by an intercompany loan, given by the Company to Himag Planar.

Note 5 - Financial Instruments

Fair value
The carrying amounts of financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, derivative instruments, trade payables, other payables and liabilities to bank and others are the same or proximate to their fair value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

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

	March 31, 2015		
	Level 1	**Level 3**	**Total**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
	$ thousands	**$ thousands**	**$ thousands**
Marketable securities held for trading	**210**	**-**	**210**
Contingent consideration liability	**-**	**209**	**209**

	March 31, 2014		
	Level 1	**Level 3**	**Total**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**
	$ thousands	**$ thousands**	**$ thousands**
Marketable securities held for trading	637	-	637
Contingent consideration liability	-	310	310

	December 31, 2014		
	Level 1	**Level 3**	**Total**
	(Audited)	**(Audited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Marketable securities held for trading	208	-	208
Contingent consideration liability	-	362	362

Further to Note 16E to the annual financial statements regarding commitments, contingent liabilities and liens, the fair value of contingent consideration liability is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). The liability is discounted to present value using the market interest rate at the reporting date.

Note 5 - Financial Instruments (cont'd)

Fair value hierarchy (cont'd)

Significant unobservable inputs include the expected annual sales turnover and the discount rate (14%). The estimate of fair value will increase as the expected annual sales turnover increases and the discount rate decreases.
As at March 31, 2015 the fair value of the contingent consideration liability has decreased to USD 209 thousand, following a payment of USD 159 thousand referring to year 2014. On the other hand, an increase, that reflects the changes related to the time value of the liability, has been recognized as financing expenses in the statement of comprehensive income, in the amount of USD 6 thousand.

A change in one of the unobservable inputs will affect the estimated fair value of the contingent consideration liability as of March 31, 2015, as follows:

1. A decrease of 5% in the discount rate will cause in an increase of USD 2 thousand.
2. An increase of 5% in the expected annual sales turnover will cause in an increase of USD 7 thousand.

A change in these unobservable inputs at the same opposite rate will have the equal but opposite effect on the fair value of the contingent consideration liability.