



**Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2014 (Unaudited)**

Financial Statements as at March 31, 2014 (Unaudited)

Contents

	<u>Page</u>
Board of Directors Report	2
Review Letter	7
Condensed Consolidated Interim Financial Statements:	
Statement of Financial Position	8
Statements of Comprehensive Income	10
Statements of Changes in Equity	11
Statements of Cash Flows	12
Notes to the Consolidated Interim Financial Statements	13

The Board of Directors' Report¹ on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries for the three months ended on March 31, 2014.

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 2014

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.

No material changes occurred during the period from January 1st to March 31st, 2014.

C. Principal customers

During the first quarter of year 2014 & 2013, and during the whole year of 2013, there was no major customer (which makes up in excess of 10% of the Group's sales) included in the consolidated sales revenues.

¹ The financial statements as at March 31, 2014 form an integral part thereof.

D. Marketing

During 2014 the Group participated in the following exhibitions:

- March, 2014, APEC in Dallas, USA.
- April, 2014 NEW (National Electronics Week), Birmingham, UK.
- May, 2014, PCIM Europe 2014 Exhibition, Nuremberg, Germany.
- May, 2014, New-Tech Exhibition, Tel-Aviv, Israel.

In addition, during 2014, 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, 2014 were USD 10,378 thousand (December 31, 2013 - USD 9,408 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 31.3.14 will be supplied until December 31, 2014.

2. Financial position

A. Statement of Financial Position as at March 31, 2014

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 15,070 thousand as at March 31, 2014 compared to USD 12,996 thousand as at December 31, 2013 and USD 16,800 thousand as at March 31, 2013. It is to be noted that, deposits at the amount of USD 1,003 thousand and USD 3,002 thousand, as at March 31, 2014 and December 31, 2013, respectively, were classified as Long-term deposits, and as such presented under the non-current assets.

Trade accounts receivable - these amounted to USD 3,969 thousand as at March 31, 2014 compared to USD 4,030 thousand as at December 31, 2013 and USD 3,480 thousand as at March 31, 2013. The increase in this item at the first quarter of 2014, compared to the same quarter last year, is explained mostly by sales volume increase in the period near the report date.

Fixed assets - these amounted to USD 12,469 thousand as at March 31, 2014, compared to USD 12,583 thousand as at December 31, 2013 and USD 10,716 thousand as at March 31, 2013. The increase in this item at the first quarter of 2014, compared to the same quarter last year, resulted mainly from investing in the industrial real-estate property ("Payton House") in Israel.

Trade payables - amounted to USD 2,292 thousand as at March 31, 2014 compared to USD 2,351 thousand as at December 31, 2013 and USD 1,464 thousand as at March 31, 2013. The increase in this item at the first quarter of 2014 compared to the same quarter last year, results mainly from increase in liability to sub-contractors manufacturers, explained by the increase in business activity; and from increase in liability to construction contractors of the real-estate property stemming from a provision for final payments.

B. Operating results

Summary of Consolidated quarterly Statements of Income US Dollars in thousands

Payton Planar Magnetics Ltd.

Consolidated Income Statements

	Quarter 1-3/14	Quarter 10-12/13	Quarter 7-9/13	Quarter 4-6/13	Quarter 1-3/13
Sales revenues	5,295	5,301	5,608	4,926	4,186
Cost of sales	3,576	3,762	3,715	3,446	2,933
<i>Gross profit</i>	<u>1,719</u>	<u>1,539</u>	<u>1,893</u>	<u>1,480</u>	<u>1,253</u>
Development costs	(226)	(217)	(222)	(228)	(246)
Selling & marketing expenses	(514)	(438)	(478)	(484)	(532)
General & administrative expenses	(689)	(743)	(700)	(682)	(679)
Other (expenses) income	-	(253)	(77)	(147)	2
<i>Operating income (loss)</i>	<u>290</u>	<u>(112)</u>	<u>416</u>	<u>(61)</u>	<u>(202)</u>
Finance (expenses) income, net	(11)	33	34	16	52
<i>Profit (loss) before income taxes</i>	<u>279</u>	<u>(79)</u>	<u>450</u>	<u>(45)</u>	<u>(150)</u>
Income taxes	(50)	52	(81)	(12)	(22)
<i>Net profit (loss) for the period</i>	<u>229</u>	<u>(27)</u>	<u>369</u>	<u>(57)</u>	<u>(172)</u>
<i>Other comprehensive income items that will not be transferred to profit & loss</i>					
Remeasurement of defined benefit plan	-	(19)	-	-	-
Total other comprehensive loss	-	(19)	-	-	-
<i>Total comprehensive income(loss) for the period</i>	<u>229</u>	<u>(46)</u>	<u>369</u>	<u>(57)</u>	<u>(172)</u>

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 2014 went down by 5.7% compared to average rate of first quarter 2013 and went down by 3.1% compared to average rate of year 2013. The decrease in this rate reflects an increase 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, 2014 were USD 5,295 thousand compared with USD 4,186 thousand in the three-month period ended March 31, 2013. The increase in sales in the first quarter of 2014 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, 2014 amounted USD 1,719 thousand (32% of sales) compared with USD 1,253 thousand (30% of sales) in the three-month period ended March 31, 2013.

Selling & marketing expenses - The Group's selling & marketing expenses are mainly comprised of: (1) commissions to the Group's reps' and Marketing Personnel, which are calculated as a portion of sales and of (2) other selling expenses (fixed) based on management policy. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.

The Group's Selling & marketing expenses for the three months ended March 31, 2014 amounted to USD 514 thousand compared with USD 532 thousand in the three months ended March 31, 2013.

3. **Liquidity**

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, 2014	December 31, 2013	March 31, 2013
Current ratio ²	5.87	5.16	7.70
Quick ratio ³	5.02	4.38	6.59

B. **Operating activities**

Cash flows generated from operating activities for the three-month period ended March 31, 2014 amounted USD 398 thousand, compared with cash flows used for operating activities at the amount of USD 200 thousand for the three-month period ended March 31, 2013. The increase in this cash flows resulted mainly from the increase in net profit as well as from other changes, in inventory and in tax paid.

C. **Investing activities**

Cash flows generated from investing activities in the three-month period ended March 31, 2014, amounted USD 225 thousand, compared with cash flows used for investing activities of USD 558 thousand in the three-month period ended March 31, 2013.

During the first quarter of 2014 the Cash flows generated from investing activities stemmed from sale of marketable securities which part of it was invested in the new industrial real-estate property "Payton House".

D. **Financing activities**

Cash flows used for financing activities in the three-month period ended March 31, 2014, amounted USD 228 thousand, compared with USD 88 thousand in the three-month period ended March 31, 2013. The increase in this item relates to the first payment of the contingent consideration, at the amount of USD 140 thousand, stemming from the purchase of Himag Solutions business activity.

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 Group's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are being affected.

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, 2014 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 2014, 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 extend its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

Ness Ziona, May 27, 2014.

David Yativ
Chairman of the Board
of Directors

Doron Yativ
Director and C.E.O.



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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, 2014 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, 2014

Condensed Consolidated Interim Statement of Financial Position as at

	March 31 2014	March 31 2013	December 31 2013
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents	6,278	6,854	5,883
Short-term deposits	8,155	8,854	6,133
Marketable securities held for trading	637	1,092	980
Trade accounts receivable	3,969	3,480	4,030
Other accounts receivable	421	676	447
Current tax assets	537	307	500
Inventory	3,381	3,587	3,218
Total current assets	23,378	24,850	21,191
Non-current assets			
Long-term deposits	1,003	-	3,002
Fixed assets	12,469	10,716	12,583
Intangible assets	1,102	1,238	1,134
Deferred taxes	158	139	160
Total non-current assets	14,732	12,093	16,879
	38,110	36,943	38,070

David Yativ
Chairman of the Board of Directors

Doron Yativ
Chief Executive Officer

Michal Lichtenstein
V.P. Finance & CFO

May 27, 2014

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

	March 31 2014	March 31 2013	December 31 2013
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Liabilities and equity			
Current liabilities			
Liabilities to bank and others	363	407	503
Trade payables	2,292	1,464	2,351
Other payables	924	993	903
Employee benefits	402	362	348
Total current liabilities	3,981	3,226	4,105
Non-current liabilities			
Liabilities to bank and others	2,985	3,154	3,061
Employee benefits	506	420	495
Total non-current liabilities	3,491	3,574	3,556
Equity			
Share capital	4,836	4,836	4,836
Share premium	8,993	8,993	8,993
Retained earnings	16,809	16,314	16,580
Total equity	30,638	30,143	30,409
Total liabilities and equity	38,110	36,943	38,070

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
	2014	2013	2013
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Revenues	5,295	4,186	20,021
Cost of sales	(3,576)	(2,933)	(13,856)
Gross profit	1,719	1,253	6,165
Development costs	(226)	(246)	(913)
Selling and marketing expenses	(514)	(532)	(1,932)
General and administrative expenses	(689)	(679)	(2,804)
Other income (expenses)	-	2	(475)
Operating income (loss)	290	(202)	41
Finance income	40	66	261
Finance expenses	(51)	(14)	(126)
Finance (expenses) income, net	(11)	52	135
Profit (loss) before income taxes	279	(150)	176
Income taxes	(50)	(22)	(63)
Profit (loss) for the period	229	(172)	113
Other comprehensive income items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	-	-	(19)
Total other comprehensive loss	-	-	(19)
Total comprehensive income (loss) for the period	229	(172)	94
Basic earnings (loss) per ordinary share (in \$)	0.01	(0.01)	0.01

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital		Share premium \$ thousands	Retained earnings \$ thousands	Total \$ thousands
	Number of shares	\$ thousands			
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 three months ended March 31, 2013 (Unaudited)					
Balance at January 1, 2013	17,670,775	4,836	8,993	16,486	30,315
Total comprehensive loss for the period					
Loss for the period	-	-	-	(172)	(172)
Total comprehensive loss for the period	-	-	-	(172)	(172)
Balance at March 31, 2013	17,670,775	4,836	8,993	16,314	30,143
For the year ended December 31, 2013 (Audited)					
Balance at January 1, 2013	17,670,775	4,836	8,993	16,486	30,315
Total comprehensive income for the year					
Profit for the year	-	-	-	113	113
Other comprehensive loss for the year	-	-	-	(19)	(19)
Total comprehensive income for the year	-	-	-	94	94
Balance at December 31, 2013	17,670,775	4,836	8,993	16,580	30,409

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
	2014	2013	December 31,
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Operating activities			
Profit (loss) for the period	229	(172)	113
Adjustments to reconcile profit (loss) to net cash generated from (used for) operating activities:			
Depreciation and amortization	250	155	846
Income taxes	50	22	63
Capital (gain) loss on sale of equipment	-	(2)	47
Increase in employee benefits	65	47	89
Decrease (increase) in trade accounts receivable	61	39	(511)
Decrease (increase) in other accounts receivable	26	(207)	22
(Increase) decrease in inventory	(163)	42	411
(Decrease) increase in trade payables	(40)	(32)	725
Increase in other payables	21	114	24
Finance expenses (income), net	8	(59)	(95)
Interest received	6	16	124
Interest paid	(30)	-	(83)
Changes in the fair value of contingent consideration	-	-	222
Tax paid	(85)	(163)	(394)
Cash flows generated from (used for) operating activities	398	(200)	1,603
Investing activities			
Proceeds from sale of marketable securities held for trading	348	100	205
Proceeds from short-term deposits, net	-	2,000	4,693
Investment in long-term deposits	-	-	(3,000)
Investment in fixed assets	(123)	(2,668)	(5,048)
Proceeds from sale of fixed assets	-	10	10
Cash flows generated from (used for) investing activities	225	(558)	(3,140)
Financing activities			
Repayment of loan	(88)	(88)	(323)
Payment of contingent consideration	(140)	-	-
Cash flows used for financing activities	(228)	(88)	(323)
Net increase (decrease) in cash and cash equivalents	395	(846)	(1,860)
Cash and cash equivalents at beginning of the period	5,883	7,684	7,684
Effect of exchange rate fluctuations on cash held	-	16	59
Cash and cash equivalents at end of the period	6,278	6,854	5,883

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

Notes to the Condensed Consolidated Interim Financial Statements

Note 1 - General

Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992. In May 2013 the Company moved to its new premises located at 3 Ha'avoda Street, Ness-Ziona. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). In June 1998, the Company completed its initial public offering in the Euro NM.

The condensed consolidated interim financial statements of the Group as at March 31, 2014 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, 2013 (hereinafter "annual financial statements"). These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on May 27, 2014.

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.

Notes to the Condensed Consolidated Interim Financial Statements**Note 4 - Financial Instruments****Fair value**

The carrying amounts of financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, 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, 2014		
	Level 1	Level 3	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	\$ thousands	\$ thousands	\$ thousands
Marketable securities held for trading	637	-	637
Contingent consideration	-	310	310
	March 31, 2013		
	Level 1	Level 3	Total
	(Unaudited)	(Unaudited)	(Unaudited)
	\$ thousands	\$ thousands	\$ thousands
Marketable securities held for trading	1,092	-	1,092
Contingent consideration	-	200	200
	December 31, 2013		
	Level 1	Level 3	Total
	(Audited)	(Audited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Marketable securities held for trading	980	-	980
Contingent consideration	-	438	438

Further to Note 4B to the consolidated financial statements as at December 31, 2013 regarding acquisition of business activity, the fair value of contingent consideration 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.

Notes to the Condensed Consolidated Interim Financial Statements

Note 4 - Financial Instruments (cont'd)

Fair value hierarchy (cont'd)

Significant unobservable inputs include the expected annual sales turnover and the discount rate (16.6%). The estimate of fair value will increase as the expected annual sales turnover increases and the discount rate decreases.

As at March 31, 2014 the fair value of the contingent consideration has decreased to USD 310 thousand, following a payment of USD 140 thousand referring to year 2013. On the other hand, an increase in the amount of USD 12 thousand, that reflects the changes related to the time value of the liability since the date of acquisition, has been recognized as financing expenses in the statement of income.

A change in one of the unobservable inputs will affect the estimated fair value of the contingent consideration as of March 31, 2014, as follows:

1. A decrease of 5% in the discount rate will cause in an increase of USD 3 thousand.
2. An increase of 5% in the expected annual sales turnover will cause in an increase of USD 10 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.