Innovation • Design • Performance

# Payton Planar Magnetics Ltd.
# and its Consolidated Subsidiaries
# Financial Statements
# June 30, 2014 (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 six months ended on June 30, 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 June 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 June 30th, 2014.

### C. Principal customers

During the first half-year of 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 June 30, 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 Backlog

The Group's order backlog as of June 30, 2014 totaled USD 11,047 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 30.6.14 will be supplied until March 31, 2015.

## 2. Financial position

### A. Statement of Financial Position as at June 30, 2014

***Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits*** **-** these items amounted to a total of USD 17,126 thousand as at June 30, 2014 compared to USD 12,996 thousand as at December 31, 2013 and USD 15,669 thousand as at June 30, 2013. It is noted that, deposits at the amount of USD 3,002 thousand, as at December 31, 2013, were classified as Long-term deposits, and as such presented under the non-current assets.

The increase in these items, during the first six months of 2014, is explained mostly by the profit for the period and from a tax refund.

***Current tax assets*** **-** these amounted to USD 62 thousand as at June 30, 2014, compared to USD 500 thousand as at December 31, 2013 and USD 338 thousand as at June 30, 2013. The decrease in this item resulted mainly from tax asset refund made during the second quarter of 2014.

***Employee benefits (Non-current Liabilities)*** **-** amounted to USD 653 thousand as at June 30, 2014 compared to USD 495 thousand as at December 31, 2013 and USD 434 thousand as at June 30, 2013. As at June 30, 2014 the value of these liabilities was updated by USD 125 thousand due to a decrease in their discount rate which is based on the interest rate of long term Government bonds.

Correspondingly, the net effect (after tax), was recorded in other comprehensive income amounted to USD 100 thousand.

## B. Operating results

**Summary of Consolidated quarterly Statements of Income**
**US Dollars in thousands**

### Payton Planar Magnetics Ltd.

**Consolidated Income Statements**

| | Quarter 4-6/14 | Quarter 1-3/14 | Quarter 10-12/13 | Quarter 7-9/13 | Quarter 4-6/13 |
|---|---|---|---|---|---|
| Sales revenues | 5,866 | 5,295 | 5,301 | 5,608 | 4,926 |
| Cost of sales | 3,682 | 3,576 | 3,762 | 3,715 | 3,446 |
| *Gross profit* | *2,184* | *1,719* | *1,539* | *1,893* | *1,480* |
| Development costs | (278) | (226) | (217) | (222) | (228) |
| Selling & marketing expenses | (526) | (514) | (438) | (478) | (484) |
| General & administrative expenses | (723) | (689) | (743) | (700) | (682) |
| Other expenses | (2) | - | (253) | (77) | (147) |
| ***Operating income (loss)*** | *655* | *290* | (112) | *416* | *(61)* |
| Finance (expenses) income, net | (18) | (11) | 33 | 34 | 16 |
| ***Profit (loss) before income taxes*** | *637* | *279* | *(79)* | *450* | *(45)* |
| Income taxes | (128) | (50) | 52 | (81) | (12) |
| ***Net profit (loss) for the period*** | *509* | *229* | *(27)* | *369* | *(57)* |
| ***Other comprehensive income items that will not be transferred to profit &loss*** | | | | | |
| Remeasurement of defined benefit plan | (100) | - | (19) | - | - |
| Total other comprehensive loss | (100) | - | (19) | - | - |
| ***Total comprehensive income (loss) for the period*** | *409* | *229* | *(46)* | *369* | *(57)* |

***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 six months of 2014 went down by 5.1% compared to average rate of the first six months of 2013 and went down by 3.6% 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 six-month period ended June 30, 2014 were USD 11,161 thousand compared with USD 9,112 thousand in the six-month period ended June 30, 2013 (increase of 22.5%). Sales revenues in the second quarter of 2014 were USD 5,866 thousand compare with USD 4,926 thousand in the second quarter of 2013 (increase of 19.1%).The increase in sales in the first half of 2014 was mainly as a result of the ramp up of few maturing projects.

***Gross profit* -** The Group’s gross profit for the six-month period ended June 30, 2014 amounted USD 3,903 thousand (35% of sales) compared with USD 2,733 thousand (30% of sales) in the six-month period ended June 30, 2013. The increase in the gross profit relates to the growth in sales (since part of the expenses included in the cost of sales did not increase) and to the products mix sold during each quarter.

***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 six months ended June 30, 2014 amounted to USD 1,040 thousand compared with USD 1,016 thousand in the six months ended June 30, 2013.

***General& Administrative expenses* -** The Group’s General & Administrative expenses for the six months ended June 30, 2014 amounted to USD 1,412 thousand compared with USD 1,361 thousand in the six months ended June 30, 2013. The increase in these expenses relates mainly due to increase in depreciation cost of the new facility and due to management incentives derived from the Group’s improved profitability.

***Other expenses, net* -** Other expenses for the six months ended June 30, 2013 amounted to USD 145 thousand (USD 2 thousand for the six months ended June 30, 2014). An amount of USD 129 thousand out of these expenses arising from the transfer to the new facility last year in May 2013.

## 3. <u>Liquidity</u>

### A. Liquidity Ratios

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

| **Payton Planar Magnetics Ltd.<br>Consolidated financial ratios** | | | |
|---|---|---|---|
| | **June 30, 2014** | **December 31, 2013** | **June 30, 2013** |
| Current ratio[2] | 5.98 | 5.16 | 5.40 |
| Quick ratio[3] | 5.12 | 4.38 | 4.63 |

[2] Current ratio calculation – Current assets / Current liabilities

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

**B. Operating activities**

Cash flows generated from operating activities for the six-month period ended June 30, 2014 amounted USD 1,773 thousand, compared with cash flows used for operating activities at the amount of USD 9 thousand for the six-month period ended June 30, 2013. The increase in this cash flows resulted mainly from the profit for the period, from tax refund and from other changes in trade account receivable and in inventory.

**C. Investing activities**

Cash flows generated from investing activities in the six-month period ended June 30, 2014 amounted USD 106 thousand, compared with cash flows used for investing activities of USD 161 thousand in the six-month period ended June 30, 2013.

During the first half of 2014 cash flows generated from investing activities stemmed from sale of marketable securities which part of it was invested in new machinery and production equipment.

**D. Financing activities**

Cash flows used for financing activities in the six-month period ended June 30, 2014 amounted USD 319 thousand, compared with USD 147 thousand in the six-month period ended June 30, 2013. The increase in this item relates to the first payment of the contingent consideration, at the amount of USD 143 thousand, stemming from the purchase of Himag Solutions business activity.

## 4. Financing sources

The Group financed its activities during the reported periods from its own resources and from a long term bank loan.

## 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 June 30, 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 six 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 extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

**Ness Ziona, August 14, 2014.**

| | |
|---|---|
| **David Yativ**<br>**Chairman of the Board of Directors** | **Doron Yativ**<br>**Director and C.E.O.** |

**Somekh Chaikin**
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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 June 30, 2014 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six and three-month periods 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)

August 14, 2014

## Condensed Consolidated Interim Statement of Financial Position as at

| | June 30 2014 | June 30 2013 | December 31 2013 |
|---|---|---|---|
| | (Unaudited) | (Unaudited) | (Audited) |
| | $ thousands | $ thousands | $ thousands |
| **Current assets** | | | |
| Cash and cash equivalents | **7,446** | 7,397 | 5,883 |
| Short-term deposits | **9,180** | 7,303 | 6,133 |
| Marketable securities held for trading | **500** | 969 | 980 |
| Trade accounts receivable | **3,894** | 4,181 | 4,030 |
| Other accounts receivable | **401** | 409 | 447 |
| Current tax assets | **62** | 338 | 500 |
| Inventory | **3,623** | 3,434 | 3,218 |
| **Total current assets** | **25,106** | 24,031 | 21,191 |
| **Non-current assets** | | | |
| Long-term deposits | **-** | - | 3,002 |
| Fixed assets | **12,317** | 12,690 | 12,583 |
| Intangible assets | **1,071** | 1,197 | 1,134 |
| Deferred taxes | **175** | 149 | 160 |
| **Total non-current assets** | **13,563** | 14,036 | 16,879 |
| **Total assets** | **38,669** | 38,067 | 38,070 |

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

August 14, 2014

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

| | June 30 2014 (Unaudited) $ thousands | June 30 2013 (Unaudited) $ thousands | December 31 2013 (Audited) $ thousands |
|---|---|---|---|
| **Liabilities and equity** | | | |
| **Current liabilities** | | | |
| Liabilities to bank and others | **496** | 410 | 503 |
| Trade payables | **2,290** | 2,612 | 2,351 |
| Other payables | **913** | 1,006 | 903 |
| Employee benefits | **499** | 424 | 348 |
| **Total current liabilities** | **4,198** | 4,452 | 4,105 |
| **Non-current liabilities** | | | |
| Liabilities to bank and others | **2,771** | 3,095 | 3,061 |
| Employee benefits | **653** | 434 | 495 |
| **Total non-current liabilities** | **3,424** | 3,529 | 3,556 |
| **Equity** | | | |
| Share capital | **4,836** | 4,836 | 4,836 |
| Share premium | **8,993** | 8,993 | 8,993 |
| Retained earnings | **17,218** | 16,257 | 16,580 |
| **Total equity** | **31,047** | 30,086 | 30,409 |
| **Total liabilities and equity** | **38,669** | 38,067 | 38,070 |

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

## Condensed Consolidated Interim Statements of Comprehensive Income

| | For the six months ended June 30 | | For the three months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | **2014** | **2013** | **2014** | **2013** | **2013** |
| | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Unaudited)** | **(Audited)** |
| | **$ thousands** | **$ thousands** | **$ thousands** | **$ thousands** | **$ thousands** |
| Revenues | **11,161** | 9,112 | **5,866** | 4,926 | 20,021 |
| Cost of sales | **(7,258)** | (6,379) | **(3,682)** | (3,446) | (13,856) |
| **Gross profit** | **3,903** | 2,733 | **2,184** | 1,480 | 6,165 |
| Development costs | **(504)** | (474) | **(278)** | (228) | (913) |
| Selling and marketing expenses | **(1,040)** | (1,016) | **(526)** | (484) | (1,932) |
| General and administrative expenses | **(1,412)** | (1,361) | **(723)** | (682) | (2,804) |
| Other expenses, net | **(2)** | (145) | **(2)** | (147) | (475) |
| **Operating profit (loss)** | **945** | (263) | **655** | (61) | 41 |
| Finance income | **79** | 105 | **45** | 47 | 261 |
| Finance expenses | **(108)** | (37) | **(63)** | (31) | (126) |
| Finance (expenses) income, net | **(29)** | 68 | **(18)** | 16 | 135 |
| **Profit (loss) before income taxes** | **916** | (195) | **637** | (45) | 176 |
| Income taxes | **(178)** | (34) | **(128)** | (12) | (63) |
| **Profit (loss) for the period** | **738** | (229) | **509** | (57) | 113 |
| **Other comprehensive income items that will not be transferred to profit and loss** | | | | | |
| Remeasurement of defined benefit plan | **(100)** | - | **(100)** | - | (19) |
| **Total other comprehensive loss** | **(100)** | - | **(100)** | - | (19) |
| **Total comprehensive income (loss) for the period** | **638** | (229) | **409** | (57) | 94 |
| **Basic earnings (loss) per ordinary share (in $)** | **0.04** | (0.01) | **0.03** | (0.00) | 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 | Retained earnings | Total |
|---|---|---|---|---|---|
| | Number of shares | $ thousands | $ thousands | $ thousands | $ thousands |
| **For the six months ended June 30, 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 | **-** | **-** | **-** | **738** | **738** |
| Other comprehensive loss | **-** | **-** | **-** | **(100)** | **(100)** |
| Total comprehensive income for the period | **-** | **-** | **-** | **638** | **638** |
| **Balance at June 30, 2014** | **17,670,775** | **4,836** | **8,993** | **17,218** | **31,047** |
| **For the six months ended June 30, 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 | - | - | - | (229) | (229) |
| Total comprehensive loss for the period | - | - | - | (229) | (229) |
| **Balance at June 30, 2013** | 17,670,775 | 4,836 | 8,993 | 16,257 | 30,086 |
| **For the three months ended June 30, 2014 (Unaudited)** | | | | | |
| **Balance at April 1, 2014** | **17,670,775** | **4,836** | **8,993** | **16,809** | **30,638** |
| **Total comprehensive income for the period** | | | | | |
| Profit for the period | **-** | **-** | **-** | **509** | **509** |
| Other comprehensive loss | **-** | **-** | **-** | **(100)** | **(100)** |
| Total comprehensive income for the period | **-** | **-** | **-** | **409** | **409** |
| **Balance at June 30, 2014** | **17,670,775** | **4,836** | **8,993** | **17,218** | **31,047** |
| **For the three months ended June 30, 2013 (Unaudited)** | | | | | |
| **Balance at April 1, 2013** | 17,670,775 | 4,836 | 8,993 | 16,314 | 30,143 |
| **Total comprehensive loss for the period** | | | | | |
| Loss for the period | - | - | - | (57) | (57) |
| Total comprehensive loss for the period | - | - | - | (57) | (57) |
| **Balance at June 30, 2013** | 17,670,775 | 4,836 | 8,993 | 16,257 | 30,086 |

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

## Condensed Consolidated Interim Statement of Changes in Equity (cont'd)

| | Share capital | | Share premium | Retained earnings | Total |
|---|---|---|---|---|---|
| | **Number of shares** | **$ thousands** | **$ thousands** | **$ thousands** | **$ thousands** |
| **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 | - | - | - | (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

| | For the six months ended June 30 | | For the three months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Operating activities** | | | | | |
| Profit (loss) for the period | **738** | (229) | **509** | (57) | 113 |
| Adjustments to reconcile profit (loss) to net cash generated from (used for) operating activities: | | | | | |
| Depreciation and amortization | **501** | 337 | **251** | 182 | 846 |
| Income taxes | **178** | 34 | **128** | 12 | 63 |
| Capital loss on sale of fixed assets | **2** | 16 | **2** | 18 | 47 |
| Increase in employee benefits | **184** | 123 | **119** | 76 | 89 |
| Decrease (increase) in trade accounts receivable | **136** | (662) | **75** | (701) | (511) |
| Decrease in other accounts receivable | **46** | 60 | **20** | 267 | 22 |
| (Increase) decrease in inventory | **(405)** | 195 | **(242)** | 153 | 411 |
| Increase in trade payables | **141** | 250 | **181** | 282 | 725 |
| Increase (decrease) in other payables | **10** | 127 | **(11)** | 13 | 24 |
| Finance expenses (income), net | **3** | (60) | **(5)** | (1) | (95) |
| Interest received | **52** | 28 | **46** | 12 | 124 |
| Interest paid | **(59)** | (12) | **(29)** | (12) | (83) |
| Changes in the fair value of contingent consideration | **-** | - | **-** | - | 222 |
| Tax paid | **(183)** | (216) | **(98)** | (53) | (394) |
| Tax received | **429** | - | **429** | - | - |
| **Cash flows generated from (used for) operating activities** | **1,773** | (9) | **1,375** | 191 | 1,603 |
| **Investing activities** | | | | | |
| Proceeds from sale of marketable securities held for trading | **488** | 205 | **140** | 105 | 205 |
| (Investments in) proceeds from short-term deposits, net | **(6)** | 3,566 | **(6)** | 1,566 | 4,693 |
| Investment in long-term deposits | **-** | - | **-** | - | (3,000) |
| Investment in fixed assets | **(377)** | (3,942) | **(254)** | (1,274) | (5,048) |
| Proceeds from sale of fixed assets | **1** | 10 | **1** | - | 10 |
| **Cash flows generated from (used for) investing activities** | **106** | (161) | **(119)** | 397 | (3,140) |

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

## Condensed Consolidated Interim Statements of Cash Flows (cont'd)

| | For the six months ended June 30 | | For the three months ended June 30 | | Year ended December 31 |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2014 | 2013 | 2013 |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Audited) |
| | $ thousands | $ thousands | $ thousands | $ thousands | $ thousands |
| **Financing activities** | | | | | |
| Repayment of loan | **(176)** | (147) | **(88)** | (59) | (323) |
| Payment of contingent consideration | **(143)** | - | **(3)** | - | - |
| **Cash flows used for financing activities** | **(319)** | (147) | **(91)** | (59) | (323) |
| **Net increase (decrease) in cash and cash equivalents** | **1,560** | (317) | **1,165** | 529 | (1,860) |
| **Cash and cash equivalents at the beginning of the period** | **5,883** | 7,684 | **6,278** | 6,854 | 7,684 |
| **Effect of exchange rate fluctuations on cash and cash equivalents** | **3** | 30 | **3** | 14 | 59 |
| **Cash and cash equivalents at the end of the period** | **7,446** | 7,397 | **7,446** | 7,397 | 5,883 |

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. 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 June 30, 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 August 14, 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, except for the value of the employee benefits non-current liabilities which was updated as at June 30, 2014 by USD 125 thousand due to a decrease in their discount rate which is based on the interest rate of long term Government Bonds. The net effect (after tax) in the amount of USD 100 thousand was recorded in other comprehensive income.

## Note 3 - Significant Accounting Policies

**A.** 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 3 - Significant Accounting Policies (cont'd)

### B. New standards and interpretations not yet adopted

### (1) IFRS 9 (2014), *Financial Instruments* (hereinafter - "the Standard")

Further to that mentioned in the disclosure on new standards and interpretations not yet adopted in Note 3 of the annual financial statements regarding significant accounting policies, a final version of the standard, which includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets has been published. This guidance has been added to the chapter dealing with general hedge accounting requirements issued in 2013.

*Classification and measurement*
In accordance with IFRS 9 (2014), there are three principal categories for measuring financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income.

IFRS 9 (2014) requires that changes in fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in its credit risk, should usually be recognized in other comprehensive income.

*Impairment of financial asset*
IFRS 9 (2014) presents a new 'expected credit loss' model for calculating impairment. For most assets, the new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date.
If the credit risk has increased significantly, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset.

IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018 with early adoption being permitted. It will be applied retrospectively with some exemptions.

The Group is examining the effects of IFRS 9 (2014) on the financial statements with no plans for early adoption.

### (2) IFRS 15, *Revenue from Contracts with Customers*

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2017 and earlier application is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application, full retrospective application with practical expedients, or application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet complete.

The Group has not yet commenced examining the effects of adopting IFRS 15 on the 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).

| | June 30, 2014 | | |
|---|---|---|---|
| | Level 1 | Level 3 | Total |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| | $ thousands | $ thousands | $ thousands |
| Marketable securities held for trading | **500** | **-** | **500** |
| Contingent consideration | **-** | **318** | **318** |

| | June 30, 2013 | | |
|---|---|---|---|
| | Level 1 | Level 3 | Total |
| | (Unaudited) | (Unaudited) | (Unaudited) |
| | $ thousands | $ thousands | $ thousands |
| Marketable securities held for trading | 969 | - | 969 |
| Contingent consideration | - | 203 | 203 |

| | 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.

## 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 June 30, 2014 the fair value of the contingent consideration has decreased to USD 318 thousand, following a payment of USD 143 thousand referring to year 2013. On the other hand, an increase, 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, in the amount of USD 23 thousand and USD 11 thousand for the six-month and three-month periods ended June 30, 2014, respectively.

A change in one of the unobservable inputs will affect the estimated fair value of the contingent consideration as of June 30, 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.

## Note 5 - Subsequent Events

Further to that mentioned in the annual financial statements in Note 21 regarding taxes on income with respect to Amendment 174 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – "the Ordinance"), regarding the non-application of Israeli Accounting Standard No. 29 *Adoption of International Financial Reporting Standards (IFRS)* when determining the taxable income (hereinafter – "the Temporary Order"), on July 31, 2014 Amendment 202 to the Ordinance was issued, by which the Temporary Order was extended to the 2012 and 2013 tax years, effective retroactively as from January 1, 2012.