PAYTON PLANAR

Innovation • Design • Performance

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2013 (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, 2013.

***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 2013

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.

Real-estate property - A purchase agreement of a real-estate property, was signed on March 10, 2011, for a total amount of NIS 13,250 thousand, excluding 16% VAT (about € 2.7 million excl. VAT). On August 16, 2011, the real-estate transaction was completed and the Company received the possession rights.
The industrial property houses the activities of the three currently-leased local facilities in one single new building. Management expects that centralizing the activities in the new building will lead to economies of scale and also offer opportunities for synergies between product lines.
On July 18, 2012, the Company concluded and signed agreements with three main construction contractors (total value USD 4.5 million) in order to suit the industrial property to Payton's needs. For funding part of these investments, in October 2012, the Company received a USD 3.5 million long-term loan, against a mortgage of the building. On May 2013 the Company moved two out of its three locations into the new facility and anticipates

[1] The financial statements as at March 31, 2013 form an integral part thereof.

completing the last phase of the transfer by the end of June 2013. To the report date estimated additional costs required for the completions were USD 1 million (total value about USD 9 million).

Himag Planar Magnetics (U.K.) - on December 28, 2012, further to M.O.U signed on 22.11.12 the Company, via its fully owned UK subsidiary - Himag Planar Magnetics (hereinafter-"Himag"), has executed an agreement to purchase the business activity of Himag Solutions Ltd., a UK company, engaged in the transformers global market. The purchase relates to the Selling Company's business activity (excluding all types of liabilities and obligations) regarding production, development, marketing and distribution of magnetic elements (transformers), including, among others, fixed assets, goodwill, inventory, agreements and intellectual property rights (hereinafter: "The Purchased Activity"). The consideration for the purchased activity has been set to USD 1.2 million paid on 31.12.12 and additional consideration for the purchased activity, conditional upon achieving a minimum annual sales turnover. Starting 1.1.13 Himag started its activity as a part of the Payton Group. The current focus is to increase Himag's efficiency and reach economies of scale in terms of manufacturing, engineering and marketing.

C. Principal customers

The consolidated sales revenues do not include sales to a major customer (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
	2013	2012	2012
Customer A	*	*	*

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

D. Marketing

During 2013 the Group participated in the following exhibitions:

- March 2013, APEC in California, USA.
- May 2013, New-Tech in Tel-Aviv, Israel.
- May 2013, PCIM in Nuremberg, Germany.

In addition, during 2013, 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, 2013 were USD 7,844 thousand (December 31, 2012 - USD 6,217 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 31.3.13 will be supplied until December 31, 2013.

2. Financial position

A. Statement of Financial Position as at March 31, 2013

***Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits* -** these items amounted to a total of USD 16,800 thousand as at March 31, 2013 compared to USD 19,703 thousand as at December 31, 2012 and USD 19,193 thousand as at March 31, 2012. During the first quarter of 2013 these items decreased mostly due to the use of cash for investments in the real-estate property.

***Fixed assets* -** these amounted to USD 10,716 thousand as at March 31, 2013, compared to USD 8,110 thousand as at December 31, 2012 and USD 6,379 thousand as at March 31, 2012. The increase in this item resulted mainly from investing in the industrial real-estate property in Israel (See paragraph 1.B above).

***Intangible assets* -** as at March 31, 2013 amounted to USD 1,238 thousand compared to USD 1,279 thousand as at December 31, 2012 and USD 499 thousand as at March 31, 2012.
The increase in this item as at March 31, 2013 compared to March 31, 2012 arises from the intangible assets recognized as a result of the acquisition of the business activity of Himag Solutions, including: goodwill, production files and brand name rights. The fair value of these intangible assets have been determined provisionally pending completion of a Purchase Price Allocation ("PPA") prepared by an external independent appraiser.

***Other payables* -** amounted to USD 993 thousand as at March 31, 2013 compared to USD 879 thousand as at December 31, 2012 and USD 1,769 thousand as at March 31, 2012. The decrease in this item, compared to March 31, 2012 results mainly from decrease in the liability to Payton Technologies due to payoff of the remaining unpaid consideration against the purchase of its business activity.

Liabilities to bank and others - amounted to a total of USD 3,561 thousand as at March 31, 2013 compared to USD 3,650 thousand as at December 31, 2012 and USD 0 thousand as at March 31, 2012. As at March 31, 2013 these liabilities comprised of a 10 years bank loan in the amount of USD 3,361 thousand (out of which USD 357 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 construction costs. Additional USD 200 thousand (out of which USD 50 thousand are presented as current liabilities) 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 Income Statements

	Quarter 1-3/13	Quarter 10-12/12	Quarter 7-9/12	Quarter 4-6/12	Quarter 1-3/12
Sales revenues	4,186	4,502	4,063	4,989	4,047
Cost of sales	2,933	2,788	2,589	3,294	2,563
Gross profit	*1,253*	*1,714*	*1,474*	*1,695*	*1,484*
Development costs	(246)	(166)	(217)	(243)	(220)
Selling & marketing expenses	(532)	(483)	(376)	(450)	(419)
General & administrative expenses	(679)	(551)	(552)	(586)	(636)
Other expenses	2	(1)	-	3	(7)
Operating (loss) income	*(202)*	*513*	*329*	*419*	*202*
Finance income (expenses), net	52	190	119	59	43
Profit (loss) before income taxes	*(150)*	*703*	*448*	*478*	*245*
Income taxes	(22)	(98)	(56)	(117)	839
Profit (loss) for the period	*(172)*	*605*	*392*	*361*	*1,084*
Remeasurement of defined benefit plan	-	(59)	-	-	-
Total comprehensive (loss) income for the period	*(172)*	*546*	*392*	*361*	*1,084*

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 2013 went down by 1.7% compared to average rate of first quarter 2012 and went down by 3.8% compared to average rate of year 2012. 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, 2013 were USD 4,186 thousand compared with USD 4,047 thousand in the three-month period ended March 31, 2012. Sales in the first quarter of 2013 include sales arising from the new business activity purchased from Himag (U.K).

Gross profit **-** The Group's gross profit for the three-month period ended March 31, 2013 amounted USD 1,253 thousand (30% of sales) compared with USD 1,484 thousand (37% of sales) in the three-month period ended March 31, 2012. The decrease in the gross profit relates to the consolidation of Himag activities characterized by lower gross margins.

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, 2013 amounted to USD 532 thousand compared with USD 419 thousand in the three months ended March 31, 2012. The increase in these expenses is mainly due to efforts invested in recruiting marketing presence in China (which didn't mature yet) and due to the incorporation of Himag Planar Magnetics sales force starting 2013.

General& Administrative expenses **-** The Group's General & Administrative expenses for the three months ended March 31, 2013 amounted to USD 679 thousand compared with USD 636 thousand in the three months ended March 31, 2012. The increase in these expenses relates mainly to the incorporation of Himag Planar Magnetics administrative personnel starting 2013.

Income Taxes **-** the tax expenses for the three-month period ended March 31, 2013 amounted to USD 22 thousand, whereas, tax income for the three-month period ended March 31, 2012 amounted to USD 839 thousand. In the first quarter last year (2012) Income taxes were mostly affected by the write-off of excess tax liability following a final tax assessment concluded.

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, 2013	**December 31, 2012**	**March 31, 2012**
Current ratio[2]	7.70	8.99	6.69
Quick ratio[3]	6.59	7.81	5.87

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

B. Operating activities

Cash flows used for operating activities for the three-month period ended March 31, 2013 amounted USD 200 thousand, compared with cash flows generated from operating activities at the amount of USD 515 thousand for the three-month period ended March 31, 2012. The decrease in this cash flows resulted mainly from the decrease in net profit as well as from the changes in trade receivables, trade payables and inventory.

C. Investing activities

Cash flows used for investing activities in the three-month period ended March 31, 2013, amounted USD 558 thousand, compared with cash flows used for investing activities of USD 780 thousand in the three-month period ended March 31, 2012.

During the first quarter of 2013 the Company used these cash flows for building its new industrial real-estate property, mostly covered by materializing short-term bank deposits.

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

5.1 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.

5.2 Since the Company is conducting the construction process of the industrial real-estate property, revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar lead to an increase/decrease (respectively) in the accumulated value of the building (fixed assets). All engagement with construction contractors are fixed in the local NIS, therefore costs allocated as fixed assets were affected.

5.3 Devaluation of the Euro in relation to the U.S. Dollar leads to a decrease in company’s assets in Euro.

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, 2013 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 2013, 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.

Nes Ziona, May 29, 2013.

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, 2013 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 29, 2013

Condensed Consolidated Interim Statement of Financial Position as at

	Note	March 31 2013 (Unaudited) $ thousands	March 31 2012 (Unaudited) $ thousands	December 31 2012 (Audited) $ thousands
Current assets				
Cash and cash equivalents		**6,854**	10,737	7,684
Short-term deposits		**8,854**	7,116	10,837
Marketable securities held for trading		**1,092**	1,340	1,182
Trade accounts receivable		**3,480**	3,143	3,519
Other accounts receivable		**676**	695	469
Current tax assets		**307**	10	180
Inventory		**3,587**	3,201	3,629
Total current assets		**24,850**	26,242	27,500
Non-current assets				
Fixed assets		**10,716**	6,379	8,110
Intangible assets	4	**1,238**	499	1,279
Deferred taxes		**139**	117	125
Total non-current assets		**12,093**	6,995	9,514
Total assets		**36,943**	33,237	37,014

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

May 29, 2013

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

	March 31 2013	March 31 2012	December 31 2012
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Liabilities to bank and others	**407**	-	408
Trade payables	**1,464**	1,472	1,435
Other payables	**993**	1,769	879
Current tax liability	**-**	333	-
Employee benefits	**362**	349	336
Total current liabilities	**3,226**	3,923	3,058
Non-current liabilities			
Liabilities to bank and others	**3,154**	-	3,242
Employee benefits	**420**	298	399
Total non-current liabilities	**3,574**	298	3,641
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Retained earnings	**16,314**	15,187	16,486
Total equity	**30,143**	29,016	30,315
Total liabilities and equity	**36,943**	33,237	37,014

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
	2013	2012	2012
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
			(*) Restated
Revenues	**4,186**	4,047	17,601
Cost of sales	**(2,933)**	(2,563)	*(11,234)
Gross profit	**1,253**	1,484	*6,367
Development costs	**(246)**	(220)	*(846)
Selling and marketing expenses	**(532)**	(419)	*(1,728)
General and administrative expenses	**(679)**	(636)	*(2,325)
Other income (expenses)	**2**	(7)	(5)
Operating (loss) income	**(202)**	202	*1,463
Finance income	**66**	188	581
Finance expenses	**(14)**	(145)	(170)
Finance income, net	**52**	43	411
(Loss) profit before income taxes	**(150)**	245	*1,874
Income taxes	**(22)**	839	568
(Loss) profit for the period	**(172)**	1,084	*2,442
Other comprehensive income items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	**-**	-	*(59)
Total comprehensive (loss) income for the period	**(172)**	1,084	2,383
Basic earnings per ordinary share (in $)	**(0.01)**	0.06	*0.14

* Retrospective application - see Note 3B(1) regarding initial application of amended IAS 19, *Employee benefits.*

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	Retained	
	Number of shares	$ thousands	premium $ thousands	earnings $ thousands	Total $ thousands
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 three months ended March 31, 2012 (Unaudited)					
Balance at January 1, 2012	17,670,775	4,836	8,993	14,103	27,932
Total comprehensive income for the period					
Profit for the period	-	-	-	1,084	1,084
Total comprehensive income for the period	-	-	-	1,084	1,084
Balance at March 31, 2012	17,670,775	4,836	8,993	15,187	29,016
For the year ended December 31, 2012 (Audited)					
Balance at January 1, 2012	17,670,775	4,836	8,993	14,103	27,932
Total comprehensive income for the year					
Profit for the year	-	-	-	*2,442	*2,442
Other comprehensive income for the year	-	-	-	*(59)	*(59)
Total comprehensive income for the year	-	-	-	2,383	2,383
Balance at December 31, 2012	17,670,775	4,836	8,993	16,486	30,315

* Retrospective application - see Note 3B(1) regarding initial application of amended IAS 19, *Employee benefits.*

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,
	2013	**2012**	**2012**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
			(*) Restated
Operating activities			
(Loss) profit for the period	**(172)**	1,084	*2,442
Adjustments to reconcile (loss) profit to net cash (used for) generated from operating activities:			
Depreciation and amortization	**155**	175	596
Income taxes	**22**	(839)	(568)
Capital (gain) loss on sale of equipment	**(2)**	7	5
Increase in employee benefits	**47**	10	*116
Decrease (increase) in trade accounts receivables	**39**	357	(19)
Increase in other accounts receivable	**(207)**	(278)	(52)
Decrease (increase) in inventory	**42**	(171)	(269)
(Decrease) increase in trade payables	**(32)**	204	160
Increase in other payables	**114**	130	67
Finance income, net	**(59)**	(55)	(302)
Interest received	**16**	26	234
Interest paid	**-**	-	(138)
Tax paid	**(163)**	(135)	(779)
Cash flows (used for) generated from operating activities	**(200)**	515	1,493
Investing activities			
Proceeds from sale of marketable securities held for trading	**100**	-	200
Proceeds from (investments in) short-term deposits, net	**2,000**	-	(3,766)
Investment in fixed assets (Note 5)	**(2,668)**	(241)	(2,100)
Proceeds from sale of fixed assets	**10**	23	37
Acquisition of business activity from related party	**-**	(562)	(1,437)
Acquisition of other business activity	**-**	-	(1,200)
Cash flows used for investing activities	**(558)**	(780)	(8,266)
Financing activities			
Loan received from bank	**-**	-	3,500
Repayment of loan	**(88)**	-	(58)
Cash flows (used for) generated from financing activities	**(88)**	-	3,442
Net decrease in cash and cash equivalents	**(846)**	(265)	(3,331)
Cash and cash equivalents at beginning of the period	**7,684**	10,964	10,964
Effect of exchange rate fluctuations on cash held	**16**	38	51
Cash and cash equivalents at end of the period	**6,854**	10,737	7,684

* Retrospective application - see Note 3B(1) regarding initial application of amended IAS 19, *Employee benefits.*

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 March 31, 2013 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. Its manufacturing includes the manufacture of printed circuits.

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, 2012 (hereinafter "annual financial statements").
These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on May 29, 2013.

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

A. Except as described in B. hereunder, 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.

B. Intial application of new standards

(1) Amendment to IAS 19, *Employee Benefits* (hereinafter – "the Amendment")

As from January 1, 2013 the Group applies the amendment to IAS 19. The amendment to IAS 19 introduces a number of changes to the accounting treatment of employee benefits, including the recognition of all actuarial gains and losses immediately through other comprehensive income directly to retained earnings. Furthermore, the interest that is recognized in profit or loss will be calculated on the balance of the net defined benefit liability (asset), according to the discount rate that is used to measure the liability. In addition, employee benefits will be classified as short or long term depending on when the Group expects the benefits to be wholly settled.

Note 3 - Significant Accounting Policies (cont'd)

B. Intial application of new standards (cont'd)

(1) Amendment to IAS 19, *Employee Benefits* (hereinafter – "the Amendment") (cont'd)

Following application of the amended standard the Group immediately recognized the gains/losses from remeasurement of a defined benefit program directly to retained earnings instead of to profit or loss. Consequently, comparative figures have been restated as follows:

Effect on the statement of comprehensive income:

	For the year ended December 31, 2012		
	As presented in the past (audited)	Effect of retrospective application of IAS 19	As presented in these financial statements
	$ thousands	$ thousands	$ thousands
Cost of sales	(11,248)	14	(11,234)
Gross profit	6,353	14	6,367
Development costs	(859)	13	(846)
Selling and marketing expenses	(1,740)	12	(1,728)
General and administrative expenses	(2,345)	20	(2,325)
Operating income	1,404	59	1,463
Profit before income taxes	1,815	59	1,874
Profit for the year	2,383	59	2,442
Other comprehensive income items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	-	(59)	(59)
Basic earnings per ordinary share (in $)	0.13	0.01	0.14

Note 3 - Significant Accounting Policies (cont'd)

B. Intial application of new standards (cont'd)

(2) IFRS 10, *Consolidated Financial Statements* (hereinafter - "IFRS 10")

IFRS 10 introduces a new single control model for determining whether an investee should be consolidated, which is to be implemented with respect to all investees.
De facto power is to be considered when assessing control, which means that the existence of effective control of an investee will require consolidation.
When assessing the existence of control, all substantive potential voting rights will be taken into account, and not only potential voting rights that are currently exercisable.
IFRS 10 is applicable retrospectively (other than certain relief in the transitional provisions).
The application of IFRS 10 did not have a material effect on the financial statements.

(3) IFRS 13, *Fair Value Measurement* (hereinafter - "IFRS 13")

On publication of IFRS 13 the disclosure requirements regarding fair value of financial instruments in interim financial statements were expanded. IFRS 13 is applicable on a prospective basis where the disclosure requirements need not be applied in comparative information for periods before initial application.
The standard's requirements were included in these financial statements as part of Note 6 regarding financial instruments.

Note 4 - Acquisition of Other Business Activity

Further to Note 5B to the consolidated financial statements as at December 31, 2012, the Group recognized identifiable assets (based on provisional amounts as described hereunder):

	December 31 2012
	$ thousands
Inventories	330
Intangible assets (1)	905
Fixed assets	165
Net identifiable assets	1,400

Note 4 - Acquisition of Other Business Activity (cont'd)

(1) Intangible assets recognized as a result of the acquisition are as follows:

	Estimated useful Life	$ thousands
Production files	5 years	96
Order and purchase backlog	0.5 years	18
Brand name	4 years	71
Non-competition agreement	5 years	11
Goodwill		709
		905

The fair value of the identifiable assets and the contingent consideration for the purchased activity have been determined provisionally pending completion of a Purchase Price Allocation ("PPA") prepared by an external independent appraiser.

Note 5 - Investment in Fixed Assets

The investment in fixed assets during the three-month period ended March 31, 2013 included an amount of USD 2,528 thousand invested in the real estate property (see Note 11 to the consolidated financial statements as at December 31, 2012). The estimated additional costs required for the completion are USD 1 million (total value USD 9 million).
In May 2013 the Company moved two out of its three locations into the new facility and anticipates completing the last phase of the transfer by the end of June 2013.

Note 6 - Financial Instruments

Fair value
The carrying amounts of financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, other short-term investments, trade payables, other payables and liabilities to banks and others are the same or proximate to their fair value.

Note 6 - Financial Instruments (cont'd)

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, 2013		
	Level 1	Level 3	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	**1,092**	**-**	**1,092**
Contingent consideration	**-**	**200**	**200**

The fair value of contingent consideration is calculated at the time of the business combination 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.
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, 2013 the change in the fair value of the contingent consideration is immaterial.