PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
June 30, 2012 (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, 2012.

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"), 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 2012

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.

Starting January 1st, 2012, following the purchase agreement approved on November 8, 2011, the business activity of Payton Technologies (1991) Ltd ("Payton Technologies"), a sister-company fully owned by the parent company (Payton Industries), was merged into the Company. All operational assets and liabilities of Payton Technologies as of January 1, 2012 were transferred into the Company for the consideration of the amount of NIS 5.6 million (about € 1.1 million). In order to estimate the fair value of the intangible assets acquired, a Purchase Price Allocation ("PPA") was conducted by Fair Value Ltd., an independent business appraiser, part of EEBC Economic Advisory Group.
Based on the PPA the surplus on the investment was allocated to: production files, open orders and goodwill. See also Note 4 to the Consolidated Interim Financial Statements as of 30.6.12.

By merging the business activity of Payton Technologies, which markets and sells Conventional Transformers, into Payton Planar, the Company will become a "one stop shop" for transformers of all kinds and will be able to answer both Planar and Conventional Magnetic needs. Furthermore, merging the two business activities,

[1] The financial statements as at June 30, 2012 form an integral part thereof.

combined with their centralization in the new building, will lead to economies of scale and also offer opportunities for synergies between the products.

In addition, according to the said Purchase Agreement, all key executive officers, employed by the parent company, as of January 1, 2012, are employed directly by the Company, and no participation in parent company management fees is allocated to the Company.

In May 2012, the Company has reached final tax assessments until the end of year 2010, following which a tax income has been recognized during the first quarter of 2012 at the amount of USD 929 thousand. This income represents a write-off of excess tax liability. In addition, an interest for delayed tax payments, at the amount of USD 138 thousand was recorded accordingly as a part of this final tax assessment.

Real-estate property - The purchase agreement of a real-estate property, signed 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 will house 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.
Company plans that by middle of year 2013 the building will be fully operational. The additional costs required for the completion are estimated to additional € 4.5 million (total value € 7.5 million). As at the date of signing these financial statements, the Company concluded and signed agreements with three main construction contractors (total value € 3.5 million) in order to suit the industrial property to Payton's needs. Construction work at site has already started. Company anticipates that the new facility will become fully operational by the end of the second quarter of 2013.

C. Principal customers

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

	For the six-month period ended June 30	**For the year ended December 31**	**For the six-month period ended June 30**
	2012	**2011**	**2011**
Customer A	*	**20%	**30%
Customer B	13%	*	*
Customer C	10%	*	*

* Less than 10% of the Group’s consolidated sales.
** It is noted that a major project of this customer ended on June 2011.

D. Marketing

During 2012 the Group participated in the following exhibitions:

- February 2012, “APEC 2012” exhibition in California, USA.
- May 2012, "PCIM" exhibition in Nierenberg, Germany.
- May 2012, “New-Tech” exhibition in Tel-Aviv, Israel.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of June 30, 2012 were USD 6,093 thousand (December 31, 2011 - USD 6,881 thousand, including USD 1,461 thousand relates to the new business activity purchased). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 30.6.12 will be supplied until March 31, 2013.

2. Financial position

A. Statement of Financial Position as at June 30, 2012

***Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits* -** these items amounted to a total of USD 18,363 thousand as at June 30, 2012 compared to USD 19,291 thousand as at December 31, 2011 and USD 18,958 thousand as at June 30, 2011. It is noted that, deposits currently presented as a short term (since their maturity date is in less then one year) as of June 30, 2011 were still classified as long term deposits.
The decrease in this item, compared to December 31, 2011, resulted of payment made against the business activity purchased from Payton Technologies.

***Trade accounts receivable* -** amounted to USD 3,967 thousand as at June 30, 2012 compared to USD 2,753 thousand as at December 31, 2011 and USD 4,560 thousand as at June 30, 2011. The increase in this item, compared to December 31, 2011, attributed by the increase in business activity as result of the business activity purchased from Payton Technologies.

***Inventory* -** this item amounted to USD 3,232 thousand as at June 30, 2012 compared to USD 2,638 thousand as at December 31, 2011 and USD 2,267 thousand as at June 30, 2011. The increase in this item, attributed by the operational assets purchased from Payton Technologies.

***Fixed assets* -** these amounted to USD 6,401 thousand as at June 30, 2012, compared to USD 6,186 thousand as at December 31, 2011 and USD 3,438 thousand as at June 30, 2011. The increase in this item resulted from purchasing and investing in industrial real-estate property in Israel (See paragraph 1.B above).

Intangible assets **-** as at June 30, 2012 amounted to USD 418 thousand. The fair value of the tangible assets was valuated in a Purchase Price Allocation ("PPA") that was conducted by an independent business appraiser. The surplus on the investment was allocated to: production files, open orders and goodwill.

Trade payables **-** amounted to USD 1,801 thousand as at June 30, 2012 compared to USD 953 thousand as at December 31, 2011 and USD 1,259 thousand as at June 30, 2011. The increase in this item, compared to December 31, 2011, resulted mainly from the increase in purchases and business activity attributed by new business activity purchased.

Current tax liability **-** amounted to USD 57 thousand as at June 30, 2012 compared to USD 1,157 thousand as at December 31, 2011 and USD 1,419 thousand as at June 30, 2011. The decrease in tax liability is explained mainly by a write-off of excess tax liability, at the amount of USD 929 thousand following a final tax assessment and by current tax payment.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 4-6/12	Quarter 1-3/12	Quarter 10-12/11	Quarter 7-9/11	Quarter 4-6/11
Sales revenues	4,989	4,047	3,664	3,659	4,916
Cost of sales	3,294	2,563	2,280	1,937	2,479
Gross profit	*1,695*	*1,484*	*1,384*	*1,722*	*2,437*
Development costs	(243)	(220)	(204)	(180)	(231)
Selling & marketing expenses	(450)	(419)	(474)	(409)	(442)
General & administrative expenses	(586)	(636)	(586)	(688)	(620)
Other income (expenses)	3	(7)	2	-	-
Operating income	*419*	*202*	*122*	*445*	*1,144*
Finance income (expenses), net	*59*	*43*	(26)	*(141)*	*62*
Profit before income taxes	*478*	*245*	*96*	*304*	*1,206*
Income taxes	(117)	839	26	(50)	(260)
Profit for the period	*361*	*1,084*	*122*	*254*	*946*

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 half-year of 2012 went up by 6% compared to average rate of year 2011, reflecting a decrease 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, 2012 were USD 9,036 thousand compared with USD 10,633 thousand in the six-month period ended June 30, 2011. The Group's sales revenues for the three-month period ended June 30, 2012 were USD 4,989 thousand compared with USD 4,916 thousand in the three-month period ended June 30, 2011.

The sales were affected by the global slowdown partially compensated by the new business activity purchased from Payton Technologies.

***Gross profit* -** The Group's gross profit for the six-month period ended June 30, 2012 amounted USD 3,179 thousand (35% of sales) compared with USD 5,279 thousand (50% of sales) in the six-month period ended June 30, 2011. The Group's gross profit for the three-month period ended June 30, 2012 amounted USD 1,695 thousand (34% of sales) compared with USD 2,437 thousand (50% of sales) in the three-month period ended June 30, 2011. The decrease in the gross profit ratio relates to the combining sales of Conventional transformers, characterized by lower gross margins, together with the sales of the Planar transformers.

***Development costs* -** Payton's R&D strategy is aimed on maintaining the leadership in the Magnetics field. The R&D department works in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were based upon time expended by the department's employees. The group's development costs for the six-month period ended June 30, 2012 were USD 463 thousand compared with USD 420 thousand in the six-month period ended June 30, 2011. The increase in these costs was attributed mainly to consolidating Payton Technologies' engineering team into the Company.

***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-month period ended June 30, 2012 amounted to USD 869 thousand compared with USD 933 thousand in the six-month period ended June 30, 2011. The decrease in these expenses is inline with the decrease in sales; shorten by the consolidation of Payton Technologies sales force.

***Income Taxes* -** Tax income for the six-month period ended June 30, 2012 amounted to USD 722 thousand, whereas, tax expenses for the six-month period ended June 30, 2011 amounted to USD 577 thousand. Income taxes were mostly affected by the write-off of excess tax liability following a final tax assessment.

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			
	June 30, 2012	**December 31, 2011**	**June 30, 2011**
Current ratio[2]	8.35	8.09	6.81
Quick ratio[3]	7.31	7.24	6.21

B. Operating activities

Cash flows generated from operating activities for the six-month period ended June 30, 2012 amounted USD 714 thousand, compared with USD 1,087 thousand for the six-month period ended June 30, 2011.

C. Investing activities

Cash flows used for investing activities in the six-month period ended June 30, 2012, amounted USD 768 thousand, compared with cash flows used for investing activities of USD 3,587 thousand in the six-month period ended June 30, 2011.

During the first half of 2012 cash flows used for payment to Payton Technologies in favor of its business activity acquisition. In the first half of 2011, cash flows used for investment in real-estate property and in short-term bank deposits.

4. Financing sources

The Group financed its activities during the reported period from its own resources.

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 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.

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

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

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, 2012 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 2012, 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.

Rishon Lezion, August 16, 2012.

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 June 30, 2012 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 16, 2012

Condensed Consolidated Interim Statement of Financial Position as at

	Note	June 30 2012 (Unaudited) $ thousands	June 30 2011 (Unaudited) $ thousands	December 31 2011 (Audited) $ thousands
Current assets				
Cash and cash equivalents		**10,894**	10,532	10,964
Short-term deposits		**6,122**	6,941	7,073
Marketable securities held for trading		**1,347**	1,485	1,254
Trade accounts receivable		**3,967**	4,560	2,753
Other accounts receivable		**192**	179	314
Current tax assets	2C	**61**	29	21
Inventory		**3,232**	2,267	2,638
Total current assets		**25,815**	25,993	25,017
Non-current assets				
Long-term deposits		**-**	2,089	-
Fixed assets		**6,401**	3,438	6,186
Intangible assets	4	**418**	-	-
Deferred taxes		**119**	130	94
Total non-current assets		**6,938**	5,657	6,280
Total assets		**32,753**	31,650	31,297

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

August 16, 2012

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

	Note	June 30 2012 (Unaudited) $ thousands	June 30 2011 (Unaudited) $ thousands	December 31 2011 (Audited) $ thousands
Liabilities and equity				
Current liabilities				
Trade payables		**1,801**	1,259	953
Other payables		**845**	796	737
Current tax liability		**57**	1,419	1,157
Employee benefits	2C	**388**	344	244
Total current liabilities		**3,091**	3,818	3,091
Non-current liabilities				
Employee benefits		**285**	276	274
Total non-current liabilities		**285**	276	274
Equity				
Share capital		**4,836**	4,836	4,836
Share premium		**8,993**	8,993	8,993
Retained earnings		**15,548**	13,727	14,103
Total equity		**29,377**	27,556	27,932
Total liabilities and equity		**32,753**	31,650	31,297

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
	2012	2011	2012	2011	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**9,036**	10,633	**4,989**	4,916	17,956
Cost of sales	**(5,857)**	(5,354)	**(3,294)**	(2,479)	(9,571)
Gross profit	**3,179**	5,279	**1,695**	2,437	8,385
Development costs	**(463)**	(420)	**(243)**	(231)	(804)
Selling and marketing expenses	**(869)**	(933)	**(450)**	(442)	(1,816)
General and administrative expenses	**(1,222)**	(1,269)	**(586)**	(620)	(2,543)
Other (expenses) income, net	**(4)**	-	**3**	-	2
Operating income	**621**	2,657	**419**	1,144	3,224
Finance income	**257**	337	**79**	136	246
Finance expenses	**(155)**	(71)	**(20)**	(74)	(147)
Finance income, net	**102**	266	**59**	62	99
Profit before income taxes	**723**	2,923	**478**	1,206	3,323
Income taxes (Note 5)	**722**	(577)	**(117)**	(260)	(601)
Profit for the period	**1,445**	2,346	**361**	946	2,722
Other comprehensive income					
Net change in fair value of available-for-sale assets transferred to profit or loss	-	60	-	60	60
Net change in fair value of available-for-sale assets	-	(13)	-	13	(13)
Total other comprehensive income	-	47	-	73	47
Total comprehensive income for the period	**1,445**	2,393	**361**	1,019	2,769
Basic earnings per ordinary share (in $)	**0.08**	0.13	**0.02**	0.05	0.15

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	Capital fund for available-for-sale assets	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the six months ended June 30, 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	**-**	**-**	**-**	**-**	**1,445**	**1,445**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,445**	**1,445**
Balance at June 30, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**15,548**	**29,377**
For the six months ended June 30, 2011 (Unaudited)						
Balance at January 1, 2011	17,670,775	4,836	8,993	(47)	11,381	25,163
Total comprehensive income for the period						
Profit for the period	-	-	-	-	2,346	2,346
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	60	-	60
Net change in fair value of available-for-sale assets	-	-	-	(13)	-	(13)
Total comprehensive income for the period	-	-	-	47	2,346	2,393
Balance at June 30, 2011	17,670,775	4,836	8,993	-	13,727	27,556
For the three months ended June 30, 2012 (Unaudited)						
Balance at April 1, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**15,187**	**29,016**
Total comprehensive income for the period						
Profit for the period	**-**	**-**	**-**	**-**	**361**	**361**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**361**	**361**
Balance at June 30, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**15,548**	**29,377**

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

	Share capital		Share premium	Capital fund for available-for-sale assets	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the three months ended June 30, 2011 (Unaudited)						
Balance at April 1, 2011	17,670,775	4,836	8,993	(73)	12,781	26,537
Total comprehensive income for the period						
Profit for the period	-	-	-	-	946	946
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	60	-	60
Net change in fair value of available-for-sale assets	-	-	-	13	-	13
Total comprehensive income for the period	-	-	-	73	946	1,019
Balance at June 30, 2011	17,670,775	4,836	8,993	-	13,727	27,556
For the year ended December 31, 2011 (Audited)						
Balance at January 1, 2011	17,670,775	4,836	8,993	(47)	11,381	25,163
Total comprehensive income for the year						
Profit for the year	-	-	-	-	2,722	2,722
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	60	-	60
Net change in fair value of available-for-sale assets	-	-	-	(13)	-	(13)
Total comprehensive income for the year	-	-	-	47	2,722	2,769
Balance at December 31, 2011	17,670,775	4,836	8,993	-	14,103	27,932

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
	2012	2011	2012	2011	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Operating activities					
Profit for the period	**1,445**	2,346	**361**	946	2,722
Adjustments to reconcile profit to net cash generated from operating activities:					
Depreciation	**192**	150	**97**	80	324
Amortization of intangible assets	**161**	-	**81**	-	-
Capital loss (gain) on sale of fixed assets	**4**	-	**(3)**	-	(2)
Income taxes (Note 5)	**(722)**	577	**117**	260	601
Increase in employee benefits (Note 2C)	**113**	141	**26**	64	39
(Increase) decrease in trade accounts receivable	**(467)**	868	**(824)**	1,140	2,675
Decrease (increase) in other accounts receivable	**225**	(103)	**503**	1	(238)
Increase in inventory	**(202)**	(22)	**(31)**	(21)	(393)
Increase (decrease) in trade payables	**545**	(978)	**341**	(386)	(1,267)
Increase (decrease) in other payables (Note 2C)	**33**	(1,009)	**(20)**	(152)	(1,068)
Interest received	**71**	104	**45**	60	259
Interest paid	**(138)**	-	**(138)**	-	-
Tax paid	**(443)**	(752)	**(308)**	(172)	(994)
Finance income, net	**(103)**	(235)	**(48)**	(54)	(120)
Cash flows generated from operating activities	**714**	1,087	**199**	1,766	2,538
Investing activities					
Proceeds from sale of marketable securities held for trading	**-**	179	**-**	179	319
Proceeds from sale of marketable securities available for sale	**-**	940	**-**	940	940
Proceeds from (investments in) short-term deposits, net	**1,015**	(2,980)	**1,015**	(2)	(1,027)
Investment in fixed assets	**(383)**	(1,738)	**(142)**	(1,380)	(4,684)
Proceeds from sale of fixed assets	**37**	12	**14**	-	21
Acquisition of business activity from related party (Note 4)	**(1,437)**	-	**(875)**	-	-
Cash flows (used for) generated from investing activities	**(768)**	(3,587)	**12**	(263)	(4,431)

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
	2012	**2011**	**2012**	**2011**	**2011**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Net (decrease) increase in cash and cash equivalents	**(54)**	(2,500)	**211**	1,503	(1,893)
Cash and cash equivalents at beginning of the period	**10,964**	12,932	**10,737**	8,995	12,932
Effect of exchange rate fluctuations on cash held	**(16)**	100	**(54)**	34	(75)
Cash and cash equivalents at end of the period	**10,894**	10,532	**10,894**	10,532	10,964

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 and its headquarters are located at 14 Hahoma Street, Rishon Le Zion. 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, 2012 comprise the Company and its subsidiaries (together referred as the “Group”).

The Group develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.

See also Note 4 regarding the acquisition of business activity from related party.

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, 2011 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on August 16, 2012.

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.

C. Statement of Financial Position

As from the condensed consolidated interim financial statements as at June 30, 2012:

1. Current tax assets, which were presented in past periods as part of other accounts receivable, are disclosed separately within current assets.
2. Current employee benefits, which were presented in past periods as part of other payables, are disclosed separately within current liabilities.

Prior periods in the statement of financial position and in the statement of cash flows are presented accordingly.

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. Accounting policy for new transactions or events

1. Business combinations under common control

Business combinations arising from transfers of business activities that are under the control of the shareholder that controls the Group are accounted for using the acquisition method. The acquisition date is the date on which the acquirer obtains control over the acquiree. Control is the power to govern the financial and operating policies of the operation acquired as to obtain benefits from the activities. The Group recognizes goodwill at acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed. The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree and the liabilities incurred by the acquirer to the previous owners of the acquiree. Costs associated with the acquisition that were incurred by the acquirer in the business combination such as legal and valuation consulting fees are expensed in the period the services are received.

2. Intangible assets

The intangible assets that were acquired by the Group, which have definite useful lives, are measured at cost less accumulated amortization. Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.
Goodwill, having an indefinite useful life, is not systematically amortized but is tested for impairment at least once a year.
Regarding estimated useful lives of intangible assets - see Note 4.

C. New standards and interpretations not yet adopted

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

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, the Group has examined the effects of applying the Amendment on the financial statements. The effect of the amendment on the financial statements of the Group is not expected to be material.

Note 4 - Acquisition of Business Activity from Related Party

On January 1, 2012 (hereinafter - the acquisition date) the Group acquired the full business activity of Payton Technologies (1991) Ltd (hereinafter - Payton Technologies), a sister-company fully owned by the parent company (Payton Industries), for the amount of NIS 5.6 million (January 1, 2012 - USD 1.466 million). (See also note 16B to the yearly financial statements as of December 31, 2011).

Note 4 - Acquisition of Business Activity from Related Party (cont'd)

By merging the business activity of Payton Technologies, which markets and sells Conventional Transformers, into Payton Planar, the Group will become a "one stop shop" for transformers of all kinds and will be able to answer both Planar and Conventional Magnetic needs. Furthermore, merging the two business activities, combined with their centralization in the new building, will lead to economies of scale and also offer opportunities for synergies between the products.

The following summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date based on an assessment prepared by an external, independent appraiser:

	$ thousands
Trade and other receivables	**878**
Inventories	**392**
Intangible assets (1)	**579**
Fixed assets	**80**
Trade and other payables	**(421)**
Current employee benefits	**(28)**
Non-current employee benefits	**(14)**
Total net operational assets	**1,466**

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

	Estimated useful Life	**$ thousands**
Production files	5 years	**440**
Order and purchase backlog	0.5 years	**117**
Goodwill		**22**
		579

Note 5 - Income Taxes

In May 2012, the Company has reached final tax assessments until the end of year 2010, following which as at March 31, 2012 a tax income in respect of previous years has been recognized at the amount of USD 929 thousand. In addition, an interest for delayed tax payments at the amount of USD 138 thousand was recorded accordingly as a part of this final tax assessment (presented within finance expenses).

Note 6 - Subsequent Events

Further to Note 11A to the consolidated financial statements as at December 31, 2011 regarding the real estate property purchase, on July 18, 2012 the Company signed agreements with three main construction contractors (total value NIS 17.5 million - USD 4.4 million) in order to suit the industrial property purchased last year to Payton's needs.