PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
September 30, 2012 (Unaudited)

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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 nine months ended on September 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 September 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 30.9.12.

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

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

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.

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.
The additional costs required for the completion are estimated to additional € 4.5 million (total value € 7.5 million). On July 18, 2012, 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. 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. Construction work at site has already started. Company anticipates that the new facility will become fully operational by middle of year 2013.

On November 22, 2012 - the Company has executed a Memorandum of Understanding (“MOU”) regarding the purchase of the business activity of a European company engaged in the transformers global market.
The above transaction is subject to a Due Diligence to be conducted, execution of a detailed agreement and its approval by the board of directors of the company.

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 nine-month period ended September 30	For the year ended December 31	For the nine-month period ended September 30
	2012	2011	2011
Customer A	*	**20%	**23.2%
Customer B	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.
- October 2012, "MDDMI Conference & Exhibition", Haifa, Israel.
- November 2012, "Electronica", Munich, Germany.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2012 were USD 6,346 thousand (December 31, 2011 - USD 6,881 thousand, including USD 1,461 thousand relate to the new purchased business activity). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 30.9.12 will be supplied until end of June, 2013.

2. Financial position

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

***Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits* -** these items amounted to a total of USD 17,746 thousand as at September 30, 2012 compared to USD 19,291 thousand as at December 31, 2011 and USD 19,552 thousand as at September 30, 2011.
The decrease in this item, compared to December 31, 2011, mainly resulted of payment made against the business activity purchased from Payton Technologies.

***Trade accounts receivable* -** amounted to USD 3,188 thousand as at September 30, 2012 compared to USD 2,753 thousand as at December 31, 2011 and USD 2,952 thousand as at September 30, 2011. The increase in this item, compared to December 31, 2011, attributed by the increase in business activity as a result of the business activity purchased from Payton Technologies.

***Inventory* -** this item amounted to USD 3,167 thousand as at September 30, 2012 compared to USD 2,638 thousand as at December 31, 2011 and USD 2,532 thousand as at September 30, 2011. The increase in this item, attributed by the operational assets purchased from Payton Technologies.

***Long-term deposits* -** these amounted to USD 1,000 thousand as at September 30, 2012 compared to USD 0 thousand as at December 31, 2011 and at September 30, 2011. The long-term deposits consist of 15 months bank time deposit.

Fixed assets **-** these amounted to USD 6,761 thousand as at September 30, 2012, compared to USD 6,186 thousand as at December 31, 2011 and USD 6,183 thousand as at September 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 September 30, 2012 amounted to USD 396 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 1,518 thousand as at September 30, 2012 compared to USD 953 thousand as at December 31, 2011 and USD 1,144 thousand as at September 30, 2011. The increase in this item resulted mainly from increase in liabilities to construction contractors with regard to the industrial property being built.

Current tax liability **-** amounted to USD 2 thousand as at September 30, 2012 compared to USD 1,157 thousand as at December 31, 2011 and USD 1,288 thousand as at September 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 7-9/12	Quarter 4-6/12	Quarter 1-3/12	Quarter 10-12/11	Quarter 7-9/11
Sales revenues	4,063	4,989	4,047	3,664	3,659
Cost of sales	2,589	3,294	2,563	2,280	1,937
Gross profit	*1,474*	*1,695*	*1,484*	*1,384*	*1,722*
Development costs	(217)	(243)	(220)	(204)	(180)
Selling & marketing expenses	(376)	(450)	(419)	(474)	(409)
General & administrative expenses	(552)	(586)	(636)	(586)	(688)
Other income (expenses)	-	3	(7)	2	-
Operating income	*329*	*419*	*202*	*122*	*445*
Finance income (expenses), net	119	59	43	(26)	(141)
Profit before income taxes	*448*	*478*	*245*	*96*	*304*
Income taxes	(56)	(117)	839	26	(50)
Profit for the period	*392*	*361*	*1,084*	*122*	*254*

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 nine-months of 2012 went up by 8% 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 nine-month period ended September 30, 2012 were USD 13,099 thousand compared with USD 14,292 thousand in the nine-month period ended September 30, 2011. The Group’s sales revenues for the three-month period ended September 30, 2012 were USD 4,063 thousand compared with USD 3,659 thousand in the three-month period ended September 30, 2011.
In the first nine-months of year 2012 the sales were affected by the global slowdown partially compensated by the integration of the new business activity purchased from Payton Technologies.

***Gross profit* -** The Group’s gross profit for the nine-month period ended September 30, 2012 amounted USD 4,653 thousand (36% of sales) compared with USD 7,001 thousand (49% of sales) in the nine-month period ended September 30, 2011. The Group’s gross profit for the three-month period ended September 30, 2012 amounted USD 1,474 thousand (36% of sales) compared with USD 1,722 thousand (47% of sales) in the three-month period ended September 30, 2011. The decrease in the gross profit ratio relates to the products mix and to the integrated 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 nine-month period ended September 30, 2012 were USD 680 thousand compared with USD 600 thousand in the nine-month period ended September 30, 2011.

***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 nine-month period ended September 30, 2012 amounted to USD 1,245 thousand compared with USD 1,342 thousand in the nine-month period ended September 30, 2011. The decrease in these expenses is inline with the decrease in sales.

***General & Administrative expenses* -** The Group’s General & Administrative expenses for the nine months ended September 30, 2012 amounted USD 1,774 thousand compared with USD 1,957 thousand in the nine months ended September 30, 2011. The decrease in these expenses relates mainly to the devaluation of the local currency with relation to the USD (see general note above), and to the reorganization made in Payton Group starting January 1st, 2012 (see paragraph B above).

***Income Taxes* -** Tax income for the nine-month period ended September 30, 2012 amounted to USD 666 thousand, whereas, tax expenses for the nine-month period ended September 30, 2011 amounted to USD 627 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			
	September 30, 2012	**December 31, 2011**	**September 30, 2011**
Current ratio[2]	9.10	8.09	7.36
Quick ratio[3]	7.93	7.24	6.62

B. Operating activities

Cash flows generated from operating activities for the nine-month period ended September 30, 2012 amounted USD 1,404 thousand, compared with USD 2,599 thousand for the nine-month period ended September 30, 2011. The cash flow was mostly affected by the decrease in the business activity and in the net profit.

C. Investing activities

Cash flows generated from investing activities in the nine-month period ended September 30, 2012, amounted USD 190 thousand, compared with cash flows used for investing activities of USD 6,436 thousand in the nine-month period ended September 30, 2011.

During the first nine-months of year 2012 proceeds from short-term deposits were used for investments in fix assets and for payment to Payton Technologies in favor of its business activity acquisition.

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.

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

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.

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 September 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 nine-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, November 29, 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 September 30, 2012 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the nine 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)

November 29, 2012

Condensed Consolidated Interim Statement of Financial Position as at

	Note	September 30 2012 (Unaudited) $ thousands	September 30 2011 (Unaudited) $ thousands	December 31 2011 (Audited) $ thousands
Current assets				
Cash and cash equivalents		**12,562**	9,096	10,964
Short-term deposits		**4,002**	9,070	7,073
Marketable securities held for trading		**1,182**	1,386	1,254
Trade accounts receivable		**3,188**	2,952	2,753
Other accounts receivable		**240**	171	314
Current tax assets		**162**	15	21
Inventory		**3,167**	2,532	2,638
Total current assets		**24,503**	25,222	25,017
Non-current assets				
Long-term deposits		**1,000**	-	-
Fixed assets		**6,761**	6,183	6,186
Intangible assets	4	**396**	-	-
Deferred taxes		**91**	91	94
Total non-current assets		**8,248**	6,274	6,280
Total assets		**32,751**	31,496	31,297

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

November 29, 2012

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

	September 30 2012	September 30 2011	December 31 2011
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Trade payables	**1,518**	1,144	953
Other payables	**919**	803	737
Current tax liability	**2**	1,288	1,157
Employee benefits	**253**	192	244
Total current liabilities	**2,692**	3,427	3,091
Non-current liabilities			
Employee benefits	**290**	259	274
Total non-current liabilities	**290**	259	274
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Retained earnings	**15,940**	13,981	14,103
Total equity	**29,769**	27,810	27,932
Total liabilities and equity	**32,751**	31,496	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 nine months ended September 30		For the three months ended September 30		Year ended December 31
	2012	2011	2012	2011	2011
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**13,099**	14,292	**4,063**	3,659	17,956
Cost of sales	**(8,446)**	(7,291)	**(2,589)**	(1,937)	(9,571)
Gross profit	**4,653**	7,001	**1,474**	1,722	8,385
Development costs	**(680)**	(600)	**(217)**	(180)	(804)
Selling and marketing expenses	**(1,245)**	(1,342)	**(376)**	(409)	(1,816)
General and administrative expenses	**(1,774)**	(1,957)	**(552)**	(688)	(2,543)
Other (expenses) income	**(4)**	-	-	-	2
Operating income	**950**	3,102	**329**	445	3,224
Finance income	**380**	243	**124**	56	246
Finance expenses	**(159)**	(118)	**(5)**	(197)	(147)
Finance income (expenses), net	**221**	125	**119**	(141)	99
Profit before income taxes	**1,171**	3,227	**448**	304	3,323
Income taxes (Note 5)	**666**	(627)	**(56)**	(50)	(601)
Profit for the period	**1,837**	2,600	**392**	254	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 other comprehensive income	-	47	-	-	47
Total comprehensive income for the period	**1,837**	2,647	**392**	254	2,769
Basic earnings per ordinary share (in $)	**0.10**	0.15	**0.02**	0.01	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	Accumulated earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
For the nine months ended September 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	**-**	**-**	**-**	**-**	**1,837**	**1,837**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,837**	**1,837**
Balance at September 30, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**15,940**	**29,769**
For the nine months ended September 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	-	-	-	-	2,600	2,600
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	2,600	2,647
Balance at September 30, 2011	17,670,775	4,836	8,993	-	13,981	27,810
For the three months ended September 30, 2012 (Unaudited)						
Balance at July 1, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**15,548**	**29,377**
Total comprehensive income for the period						
Profit for the period	**-**	**-**	**-**	**-**	**392**	**392**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**392**	**392**
Balance at September 30, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**15,940**	**29,769**

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	Capital fund for available-	Accumulated	
	Number of shares	$ thousands	premium $ thousands	for-sale assets $ thousands	earnings $ thousands	Total $ thousands
For the three months ended September 30, 2011 (Unaudited)						
Balance at July 1, 2011	17,670,775	4,836	8,993	-	13,727	22,556
Total comprehensive income for the period						
Profit for the period	-	-	-	-	254	254
Total comprehensive income for the period	-	-	-	-	254	254
Balance at September 30, 2011	17,670,775	4,836	8,993	-	13,981	27,810

	Share capital		Share	Capital fund for available-	Accumulated	
	Number of shares	$ thousands	premium $ thousands	for-sale assets $ thousands	earnings $ thousands	Total $ thousands
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 nine months ended September 30		For the three months ended September 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	**1,837**	2,600	**392**	254	2,722
Adjustments to reconcile profit to net cash generated from operating activities:					
Depreciation	**292**	233	**100**	83	324
Amortization of intangible assets	**183**	-	**22**	-	-
Capital loss (gain) on sale of fixed assets	**4**	-	**-**	-	(2)
Income taxes (Note 5)	**(666)**	627	**56**	50	601
(Decrease) increase in employee benefits (Note 2C)	**(17)**	9	**(130)**	(17)	39
Decrease in trade accounts receivable	**312**	2,476	**779**	1,608	2,675
Decrease (increase) in other accounts receivable	**177**	(95)	**(48)**	8	(238)
Decrease (increase) in inventory	**(137)**	(287)	**65**	(265)	(393)
Increase (decrease) in trade payables	**142**	(1,076)	**(403)**	(98)	(1,267)
Increase (decrease) in other payables (Note 2C)	**107**	(1,039)	**74**	(145)	(1,068)
Interest received	**146**	140	**75**	36	259
Interest paid	**(138)**	-	**-**	-	-
Tax paid	**(627)**	(880)	**(184)**	(128)	(994)
Finance (income) expenses, net	**(211)**	(109)	**(108)**	126	(120)
Cash flows generated from operating activities	**1,404**	2,599	**690**	1,512	2,538
Investing activities					
Proceeds from sale of marketable securities held for trading	**200**	179	**200**	-	319
Proceeds from sale of marketable securities available for sale	**-**	940	**-**	-	940
Proceeds from (investments in) short-term deposits, net	**3,113**	(2,984)	**2,098**	(4)	(1,027)
Investment in long-term deposits	**(1,000)**	-	**(1,000)**	-	-
Investment in fixed assets	**(723)**	(4,583)	**(340)**	(2,845)	(4,684)
Proceeds from sale of fixed assets	**37**	12	**-**	-	21
Acquisition of business activity from related party (Note 4)	**(1,437)**	-	**-**	-	-
Cash flows generated from (used for) investing activities	**190**	(6,436)	**958**	(2,849)	(4,431)
Net increase (decrease) in cash and cash equivalents	**1,594**	(3,837)	**1,648**	(1,337)	(1,893)
Cash and cash equivalents at beginning of the period	**10,964**	12,932	**10,894**	10,532	12,932
Effect of exchange rate fluctuations on cash held	**4**	1	**20**	(99)	(75)
Cash and cash equivalents at end of the period	**12,562**	9,096	**12,562**	9,096	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 September 30, 2012 comprise the Company and its subsidiaries (together referred as the “Group”).

The Group develops, manufactures and markets mainly planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiary 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 November 29, 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

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

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

The statement of financial position and the statement of cash flows as at September 30, 2011 and as at December 31, 2011 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 for the tax years 2007-2010, 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 - Commitments

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.

Note 7 - Subsequent Events

A. In October 2012, the Company has taken a 10 years bank loan in the amount of USD 3.5 million against a mortgage of the real estate property.
The loan bears interest of Libor+3.7% and is repayable in monthly payments starting from November 2012.

B. On November 22, 2012 the Company has executed a Memorandum of Understanding ("MOU") regarding the purchase of the business activity of a European company engaged in the transformers global market.
The above transaction is subject to a Due Diligence to be conducted, execution of a detailed agreement and its approval by the board of directors of the company.