PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2011 (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, 2011.

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. <u>A concise description of the corporation and its business environment</u>

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 March 2011

The Company, an Israeli high-tech enterprise, develops, manufactures and markets Planar 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 invention is patented in North America, Europe and Japan. The Company completed its initial public offering in 1998 on the Euronext Stock Exchange.

- **March 10, 2011 -** The Company signed a purchase agreement of a real-estate property for a total amount of NIS 13,250 thousand, excluding 16% VAT (about € 2.7 million excl. VAT). The Company expects to finance the transaction by its own financial resources.

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 property land is 4,500 square meters and located in the central area of Israel. It consists of a basement/parking lot of 2,000 square meters and two floors above, each of 2,000 square meters. The foundation and framing phases of the industrial building have been finalized. Company anticipates that it could take about two years to be fully operational. The additional costs required for the completion and for the move are estimated to about € 2.8 million.

[1] The financial statements as at March 31, 2011 form an integral part thereof.

The agreement execution is still subject to a suspending condition, valid for 90 days from its signing date, and concerns the completion of the property registration in the local Real-estate registration office.

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 three-month period ended March 31	For the year ended December 31	For the three-month period ended March 31
	2011	2010	2010
Customer A	29.5%**	27.8%	20.8%
Customer B	*	20.2%**	17.7%

* Less than 10% of the Group's consolidated sales.
** It is noted that a major project of this customer is expected to end by mid 2011.

D. Marketing

During 2011 the Group participated in the following exhibitions:

- January 2011, "New Tech Motion Control & Power Solutions" exhibition in Tel-Aviv, Israel.
- March 2011, "New-Tech" exhibition in Tel-Aviv, Israel.
- March 2011, "APEC 2011" exhibition in California, USA.
- April 2011, TI San Jose conference in California, USA.
- May 2011, "PCIM" exhibition in Nierenberg, Germany.
- May 2011, Lockheed Martin Clearwater conference in Florida, USA.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2011 were USD 7,315 thousand (December 31, 2010 - USD 8,710 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.3.11 will be supplied until December 31, 2011.

2. Financial position

A. Statement of Financial Position as at March 31, 2011

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 17,593 thousand as at March 31, 2011 compared to USD 18,491 thousand as at December 31, 2010 and USD 12,900 thousand as at March 31, 2010. The decrease in these items compared with December 31, 2010 is mainly explained by advance payment for the property purchase agreement and for equipment in addition to payoff of current liabilities to related parties

The increase in these items compared with March 31, 2010 is mainly explained by the profits accrued within the two reported periods and by the materialization of Marketable securities available for sale, covering up the increase in working capital.

Other accounts receivable - as at March 31, 2011 this item includes USD 98 thousand, held in a bank trust account, in favor of the purchase of a real-estate property.

Marketable securities available for sale - as at March 31, 2011 these amounted to USD 927 thousand compared to USD 953 thousand as at December 31, 2010 and USD 1,842 thousand as at March 31, 2010.

The decrease in this item, compared to March 31, 2010, resulted by a sale of ARS securities, at 95% from their par value (USD 975 thousand) in exchange for USD 926 thousand.

The fair value of the said ARS securities was assessed by a professional external appraisers company. See detailed information regarding Fair value analysis at paragraph B below.

It is noted that, on April 2011 the Company accepted an offer to materialize the remaining of these securities at a rate of 94% from their par value (USD 1,000 thousand) and received USD 940 thousand.

Trade payables - these amounted to USD 1,631 thousand as at March 31, 2011 compared to USD 2,211 thousand as at December 31, 2010 and USD 1,671 thousand as at March 31, 2010. The decrease at March 31, 2011 is explained by a decrease in business activity, mainly through manufacturing subcontractors in China.

Other payables - these amounted to USD 1,235 thousand as at March 31, 2011 compared to USD 2,034 thousand as at December 31, 2010 and USD 954 thousand as at March 31, 2010. The decrease at March 31, 2011 compared with December 31, 2010 is attributed to Company decision to decrease its current liabilities to related parties.

B. Fair value analysis of Marketable Securities available for sale

The Company invested in U.S. Auction Rate Securities ("ARS"), a debt instrument issued by local authorities, high education institutions and others, with a long-term nominal maturity (much more than 10 years), for which the interest rate is regularly reset through an auction. In the said auction, broker-dealers submit bids on behalf of potential buyers and sellers of the bond. Based on the submitted bids, the auction agent will set the next interest rate as the lowest rate to match supply and demand. Auctions are typically held every 7 or 28 days; interest on these securities is paid at the end of each auction period.

In year 2010 the Company accepted offers to materialize two (out of three) of its ARS securities at a rate of 96% and 95% respectively, from their par value, (Par value - USD 1,975 thousand). In exchange for these sales of ARS the Company received USD 1,886 thousand.

As at March 31, 2011 the fair value of the remaining ARS was assessed at the amount of USD 927 thousand, compared to USD 953 thousand as at December 31, 2010 (Par value - USD 1,000 thousand). The valuation was prepared by an external, independent appraiser (Houlihan Smith & Company Inc.) having suitable professional skills.

The Company included the total of this fair value decline in a capital reserve. It is noted that, according to that valuation, the change in fair value of the aforementioned securities is due to changes in current market conditions and in the liquidity of the markets, and is not due to financial difficulties or liquidity problems of the instrument's issuer.

As at March 31, 2011, management of the Company estimated that it will not be possible to materialize the said securities at their stated value in the short-term, therefore it intended to hold them for a long-term or until their value rises back to their par value, or near to it. Accordingly, these securities were defined as long-term available for sale.
However, on April 2011, the Company accepted an offer to materialize its last remaining ARS securities at a rate of 94% from their par value, (Par value - USD 1,000 thousand). In exchange for the said transaction the Company received USD 940 thousand.

C. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/11	Quarter 10-12/10	Quarter 7-9/10	Quarter 4-6/10	Quarter 1-3/10
Sales revenues	5,717	6,202	7,685	7,059	3,944
Cost of sales	2,875	2,996	4,276	3,764	2,533
Gross profit	*2,842*	*3,206*	*3,409*	*3,295*	*1,411*
Development costs	(189)	(227)	(170)	(158)	(164)
Selling & marketing expenses	(491)	(595)	(580)	(569)	(368)
General & administrative expenses	(649)	(597)	(700)	(661)	(511)
Other expenses	-	(349)	-	(2)	-
Operating income	*1,513*	*1,438*	*1,959*	*1,905*	*368*
Finance income (expenses), net	*204*	(45)	259	(142)	(40)
Profit before income taxes	*1,717*	*1,393*	*2,218*	*1,763*	*328*
Income taxes	(317)	(424)	(507)	(16)	(92)
Profit for the period	*1,400*	*969*	*1,711*	*1,747*	*236*

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 2011 went down by 3.5% compared to average rate of year 2010, reflecting 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, 2011 were USD 5,717 thousand compared with USD 3,944 thousand in the three-month period ended March 31, 2010. The sales in the first quarter of 2011 were still affected by 2010 global upturn.

***Gross profit* -** The Group's gross profit for the three-month period ended March 31, 2011 amounted USD 2,842 thousand (50% of sales) compared with USD 1,411 thousand (36% of sales) in the three-month period ended March 31, 2010. The increase in the gross profit relates to the growth in sales and to the products mix sold during each quarter.

***Development costs* -** Payton's R&D strategy is aimed on maintaining the leadership of the Planar Technology. 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 three months ended March 31, 2011 were USD 189 thousand compared with USD 164 thousand in the three months ended March 31, 2010.

***Selling & marketing expenses* -** The Group’s selling & marketing expenses are based on the management policy and are not related to sales, except sales commissions to the Group's reps’ and Marketing Personnel, which are calculated as a portion of sales. 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, 2011 amounted to USD 491 thousand compared with USD 368 thousand in the three months ended March 31, 2010. The increase in these expenses is inline with the increase in sales.

***General & Administrative expenses* -** The Group’s General & Administrative expenses for the three months ended March 31, 2011 amounted to USD 649 thousand compared with USD 511 thousand in the three months ended March 31, 2010. The increase in these expenses stemmed of increase in Parent Company’s joint G&A expenses mainly due to management incentives derived of the Group’s improved sales and profitability**.**

***Finance income (expenses), net* -** The Group’s finance income for the three-month period ended March 31, 2011 amounted USD 204 thousand, compared with an expense of USD 40 thousand for the three-month period ended March 31, 2010. Erosion of cash & cash equivalent mostly in Euro versus the US Dollar attributed the increase in the Finance net income.

***Income Taxes* -** Tax expenses for the three-month period ended March 31, 2011 amounted to USD 317 thousand (18%), whereas, tax expenses for the three-month period ended March 31, 2010 amounted to USD 92 thousand (28%). The decrease in tax expenses percentage attributed mainly to local tax benefits.

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, 2011	**December 31, 2010**	**March 31, 2010**
Current ratio[2]	6.19	4.52	4.87
Quick ratio[3]	5.66	4.13	4.33

[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, 2011 amounted USD 649 thousand. In the first quarter of 2011 Cash flows for operating activities were mostly affected by payoff of current liabilities to related parties and payments made to trade payable.

C. Investing activities

Cash flows used for investing activities in the three-month period ended March 31, 2011, amounted USD 3,354 thousand, compared with cash flows generated from investing activities of USD 247 thousand in the three-month period ended March 31, 2010.
During the first quarter of 2011 this cash flows were used mainly for investment 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.

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.

David Yativ
Chairman of the Board of Directors
and C.E.O.

Rishon Lezion, May 26, 2011.

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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, 2011 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 26, 2011

Condensed Consolidated Interim Statement of Financial Position as at

	Note	March 31 2011 (Unaudited) $ thousands	March 31 2010 (Unaudited) $ thousands	December 31 2010 (Audited) $ thousands
Current assets				
Cash and cash equivalents		**8,995**	6,002	12,932
Short-term deposits		**6,929**	5,178	3,921
Marketable securities held for trading		**1,669**	1,720	1,638
Trade accounts receivable		**5,700**	3,519	5,428
Other accounts receivable		**427**	149	105
Inventory		**2,246**	2,065	2,245
Total current assets		**25,966**	18,633	26,269
Non-current assets				
Long-term deposits		**2,076**	2,026	2,064
Marketable securities available for sale	5	**927**	1,842	953
Other investment		**-**	348	-
Fixed assets		**1,906**	1,747	1,836
Deferred taxes		**123**	87	107
Total non-current assets		**5,032**	6,050	4,960
Total assets		**30,998**	24,683	31,229

David Yativ
Chief Executive Officer and
Chairman of the Board of Directors

Michal Lichtenstein
V.P. Finance & CFO

May 26, 2011

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

	March 31 2011 (Unaudited) $ thousands	March 31 2010 (Unaudited) $ thousands	December 31 2010 (Audited) $ thousands
Liabilities and equity			
Current liabilities			
Trade payables	**1,631**	1,671	2,211
Other payables	**1,235**	954	2,034
Current tax liability	**1,326**	1,204	1,571
Total current liabilities	**4,192**	3,829	5,816
Non-current liabilities			
Employee benefits	**269**	204	250
Total non-current liabilities	**269**	204	250
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Capital fund for available-for-sale assets	**(73)**	(133)	(47)
Retained earnings	**12,781**	6,954	11,381
Total equity	**26,537**	20,650	25,163
Total liabilities and equity	**30,998**	24,683	31,229

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
	2011	**2010**	**2010**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Revenues	**5,717**	3,944	24,890
Cost of sales	**(2,875)**	(2,533)	(13,569)
Gross profit	**2,842**	1,411	11,321
Development costs	**(189)**	(164)	(719)
Selling and marketing expenses	**(491)**	(368)	(2,112)
General and administrative expenses	**(649)**	(511)	(2,469)
Other expenses	**-**	-	(351)
Operating income	**1,513**	368	5,670
Finance income	**211**	100	318
Finance expenses	**(7)**	(140)	(286)
Finance income (expenses), net	**204**	(40)	32
Profit before income taxes	**1,717**	328	5,702
Income taxes	**(317)**	(92)	(1,039)
Profit for the period	**1,400**	236	4,663
Other comprehensive income			
Net change in fair value of available-for-sale assets transferred to profit or loss	**-**	40	89
Net change in fair value of available-for-sale assets	**(26)**	(11)	26
Total other comprehensive income	**(26)**	29	115
Total comprehensive income for the period	**1,374**	265	4,778
Basic earnings per ordinary share (in $)	**0.08**	0.01	0.26

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 three months ended March 31, 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	**-**	**-**	**-**	**-**	**1,400**	**1,400**
Other comprehensive income						
Net change in fair value of available-for-sale assets	**-**	**-**	**-**	**(26)**	**-**	**(26)**
Total comprehensive income for the period	**-**	**-**	**-**	**(26)**	**1,400**	**1,374**
Balance at March 31, 2011	**17,670,775**	**4,836**	**8,993**	**(73)**	**12,781**	**26,537**
For the three months ended March 31, 2010 (Unaudited)						
Balance at January 1, 2010	17,670,775	4,836	8,993	(162)	6,718	20,385
Total comprehensive income for the period						
Profit for the period	-	-	-	-	236	236
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	40	-	40
Net change in fair value of available-for-sale assets	-	-	-	(11)	-	(11)
Total comprehensive income for the period	-	-	-	29	236	265
Balance at March 31, 2010	17,670,775	4,836	8,993	(133)	6,954	20,650
For the year ended December 31, 2010 (Audited)						
Balance at January 1, 2010	17,670,775	4,836	8,993	(162)	6,718	20,385
Total comprehensive income for the year						
Profit for the year	-	-	-	-	4,663	4,663
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	89	-	89
Net change in fair value of available-for-sale assets	-	-	-	26	-	26
Total comprehensive income for the year	-	-	-	115	4,663	4,778
Balance at December 31, 2010	17,670,775	4,836	8,993	(47)	11,381	25,163

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,
	2011	**2010**	**2010**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Operating activities			
Profit for the period	**1,400**	236	4,663
Adjustments to reconcile profit to net cash (used for) generated from operating activities:			
Depreciation	**70**	67	281
Capital loss on sale of equipment	**-**	-	3
Impairment loss on other investment	**-**	-	348
Increase in employee benefits	**19**	10	56
Increase in trade accounts receivables	**(272)**	(1,032)	(2,941)
(Increase) decrease in other accounts receivable	**(104)**	5	35
Increase in inventory	**(1)**	(61)	(241)
(Decrease) increase in trade payables	**(592)**	554	1,098
(Decrease) increase in other payables	**(799)**	(284)	796
(Decrease) increase in tax liability	**(245)**	3	384
Increase in deferred taxes	**(16)**	(16)	(36)
Finance (income) expenses, net	**(109)**	61	44
Cash flows (used for) generated from operating activities	**(649)**	(457)	4,490
Investing activities			
Proceeds from sale of marketable securities held for trading	**-**	-	103
Proceeds from sale of marketable securities available for sale	**-**	960	1,886
(Investments in) proceeds from short-term deposits, net	**(3,008)**	(646)	611
Payments in advance and investment in fixed assets	**(358)**	(67)	(415)
Proceeds from sale of fixed assets	**12**	-	38
Cash flows (used for) generated from investing activities	**(3,354)**	247	2,223
Financing activities			
Dividend paid	**-**	(1,679)	(1,679)
Cash flows used for financing activities	**-**	(1,679)	(1,679)
Net (decrease) increase in cash and cash equivalents	**(4,003)**	(1,889)	5,034
Cash and cash equivalents at beginning of the period	**12,932**	7,961	7,961
Effect of exchange rate fluctuations on cash held	**66**	(70)	(63)
Cash and cash equivalents at end of the period	**8,995**	6,002	12,932
Supplementary disclosure			
Interest received included in cash flows generated from operating activities	**44**	39	269
Tax paid included in cash flows used for operating activities	**579**	106	691

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 March 31, 2011 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.

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, 2010 (hereinafter "annual financial statements").
These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on May 26, 2011.

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

Except as described below in Item (1), 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.

Presented hereunder is a description of the changes in accounting policies that were applied in these condensed consolidated interim financial statements and their effect:

(1) Initial implementation of new standards

A. Related party disclosures

As from January 1, 2011 the Group implements IAS 24 (2009) *Related Party Disclosures* (hereinafter – "the Standard"). The Standard includes changes in the definition of a related party and changes with respect to disclosures required by entities related to government. The Standard was applied retrospectively.

For the purpose of implementing the Standard for the first time, the Group mapped its relationships with related parties. No new related parties have been identified according to the new definition and as a result of the mapping.

B. Interim financial reporting

As from January 1, 2011 the Group implements the amendment to IAS 34 *Interim Financial Reporting* - Significant events and transactions (hereinafter - "the Amendment"), which was issued in the framework of *Improvements to IFRSs 2010*. The Amendment expanded the list of events and transactions that require disclosure in interim financial statements and also removed the materiality threshold from the minimum disclosure requirements that was included in the Standard before its amendment. Implementation of the Amendment did not have any effect on these condensed interim financial statements.

(2) New standards and interpretations not yet adopted

A. IFRS 9 (2010), *Financial Instruments* (hereinafter - "the Standard")

Further to that mentioned in the annual financial statements in the note on significant accounting policies with respect to new standards and interpretations not yet adopted, the Group is examining the effects of adopting the Standard on the financial statements and has no plans for early adoption.

Note 3 - Significant Accounting Policies (cont'd)

(2) New standards and interpretations not yet adopted (cont'd)

B. A new suite of accounting standards on Consolidation, Joint Arrangements and Disclosure of Involvement with Other Entities

Presented hereunder are the new standards that were issued:

(1) **IFRS 10 *Consolidated Financial Statements* (hereinafter - "IFRS 10")**

IFRS 10 replaces the requirements of IAS 27 *Consolidated and Separate Financial Statements* and the requirements of SIC-12 *Consolidation - Special Purpose Entities* with respect to the consolidation of financial statements, so that the requirements of IAS 27 will continue to be valid only for separate financial statements.

IFRS 10 introduces a new single control model for determining whether an investor controls an investee and should therefore consolidate it. This model is implemented with respect to all investees. According to the model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee and has the ability to affect those returns through its power over that investee.

Presented hereunder are certain key changes from the current consolidation guidance:

- IFRS 10 introduces a model that requires applying judgment and analyzing all the relevant facts and circumstances for determining who has control and is required to consolidate the investee. This is reflected in, inter alia, the need to understand the design and purpose of an investee and the need to take into account evidence of power. Furthermore, the model explicitly requires identifying the investee's activities as part of the control assessment.

- IFRS 10 introduces a single control model that is to be applied to all investees, both those presently in the scope of IAS 27 and those presently in the scope of SIC-12.

- De facto power should be considered when assessing control. This means that the existence of de facto control could require consolidation.

- When assessing control, all "substantive" potential voting rights will be taken into account. The structure, reasons for existence and conditions of potential voting rights should be considered.

- IFRS 10 provides guidance on the determination of whether a decision maker is acting as an agent or as a principal when assessing whether an investor controls an investee.

- IFRS 10 provides guidance on when an investor would assess power over portion of the investee (silos), that is over specified assets of the investee.

Note 3 - Significant Accounting Policies (cont'd)

(2) New standards and interpretations not yet adopted (cont'd)

B. A new suite of accounting standards on Consolidation, Joint Arrangements and Disclosure of Involvement with Other Entities (cont'd)

(1) (cont'd)

- IFRS 10 provides a definition of protective rights.
- The exposure to risk and rewards of an investee does not, on its own determine that the investor has control over an investee, rather it is one of the factor of control analysis.

IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted provided that the entire consolidation suite is adopted at the same time.

(2) **IFRS 12 *Disclosure of Involvement with Other Entities* (hereinafter - IFRS 12)**

IFRS 12 contains disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

Structured entities are entities that are designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. The definition of rights in IFRS 12 is broad and includes contractual and/or non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity.

The purpose of the new disclosure requirements is to enable the users of the financial statements to understand the nature and the risks associated with its interests in other entities, and to understand the effect of such interests on the entity's financial position, results of operations and cash flows. This is reflected in broad and extensive disclosure requirements, including among other: significant judgments and assumptions made in determining the nature of interests in entities and arrangements, interests in subsidiaries, interests in joint arrangements and in associates and interests in structured entities.

IFRS 12 is applicable retrospectively for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that the entire consolidation suite is adopted at the same time.

Nevertheless, it is permitted to voluntarily provide the additional disclosures required by IFRS 12 prior to its adoption without early adopting the other standards.

The Group has not yet started assessing the effects of adopting IFRS 10 & 12 and related amended standards in its financial statements.

Note 3 - Significant Accounting Policies (cont'd)

(2) New standards and interpretations not yet adopted (cont'd)

C. IFRS 13 *Fair Value Measurement* (hereinafter - IFRS 13)

IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value, nor does it eliminate the practicability exception to fair value measurement that currently exist in certain standards.

IFRS 13 applies to assets, liabilities and an entity's own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Nevertheless, IFRS 13 does not apply to share-based payment transactions within the scope of IFRS 2 and leasing transactions within the scope of lAS 17. IFRS 13 does not apply to measurements that are similar to but not fair value (such as net realizable value and value in use).

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

The Group has not yet started assessing the effects of adopting IFRS 13 in its financial statements.

Note 4 - Real Estate Property Purchase Agreement

As at March 31, 2011 an amount of USD 98 thousand is held in a bank trust account, in favor of the purchase of a real-estate property, and classified under other accounts receivable (see also Note 25 to the yearly financial statements as of December 31, 2010).

Note 5 - Subsequent Events

In April 2011 the Company accepted an offer to materialize its ARS securities at a rate of 94% from their par value (Par value - USD 1,000 thousand). In exchange for this sale of ARS, the Company received USD 940 thousand.