PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
September 30, 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 nine months period ended on September 30, 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. The Management emphasizes that the assumptions do 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 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 thousands, excluding 16% VAT (about € 2.7 million excl. VAT). The Company financed 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, starting

[1] The financial statements as at September 30, 2011 form an integral part thereof.

from its purchase, to be fully operational. The additional costs required for the completion and for the move are estimated to about € 2.8 million.

- **On August 16, 2011** - the real-estate transaction was completed and the Company received the possession rights.

- **On September 18, 2011** - the Company's Board of Directors approved the purchase agreement[2] of the business activity of Payton Technologies (1991) Ltd, a sister-company fully owned by the parent company (Payton Industries), for the amount of NIS 5.6 million (about € 1.1 million) (the "Purchase Agreement"). The said amount was based on an assessment prepared by an external, independent appraiser as of 30.6.11, and may be adjusted, accordingly, if the operating assets of Payton Technologies, net, as of 31.12.11 will differ by more than 5% from their value as at 30.6.11.

According to the Purchase Agreement, all key executive officers, employed by the parent company shall, as of January 1, 2012, be employed directly by the Company (with no significant changes in the costs allocated to the Company).

In addition to the approval of the Purchase Agreement and as a part of the organizational changes, the Company's Board of directors approved the following:

- Nomination of Mr. Doron Yativ [3] as the Company's C.E.O.
- Nomination of Mr. David Yativ[4] as an Active Chairman and the Management Services Agreement between the Company and David Yativ, Technologies and management Ltd[5].

- **On November 8, 2011** - the Shareholders General Meeting approved all the resolutions approved by the Company's Board of director on September 18, 2011.

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
	2011	2010	2010
Customer A	**23.2%	27.8%	26.0%
Customer B	*	***20.2%	***24.4%

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

[2] Effective date - January 1, 2012.
[3] Mr. Doron Yativ, the son of David Yativ, serves as a director and during the past 10 years as Payton's V.P. Marketing and Business development.
[4] Mr. David Yativ- in the past years Chairman & C.E.O., the founder and controlling shareholder of Payton Industries.
[5] A private company fully owned by David Yativ.

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.
- May 2011, “PCIM” exhibition in Nierenberg, Germany.
- September 2011, IEEE Energy Conversion Congress and Expo (ECCE) 2011 in Phoenix, Arizona, USA.

In addition, during that period, the Company initiated several seminars and conferences in the USA.

E. Order and Purchase Backlog

Order and purchase backlog of the Group was affected by the global slowdown and by the termination of two major projects (as detailed in paragraph C - Principal customers above).
As of September 30, 2011 this backlog amounted to USD 5,076 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 30.9.11 will be supplied until June 30, 2012.

2. Financial position

A. Statement of Financial Position as at September 30, 2011

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits **-** these items amounted to a total of USD 19,552 thousand as at September 30, 2011 compared to USD 18,491 thousand as at December 31, 2010 and USD 16,008 thousand as at September 30, 2010. The increase in these items compared to December 31, 2010 is explained mainly by the following: a) the profitability during the period, b) classifying the remaining long term deposits as a short term since their maturity date is in less then one year, and c) the sale of "marketable securities available for sale" (ARS, see below). This cash increase was shortened by investment made in the real-estate property purchased.

Trade receivables **-** these amounted to USD 2,952 thousand as at September 30, 2011 compared to USD 5,428 thousand as at December 31, 2010 and USD 7,087 thousand as at September 30, 2010. The decrease at September 30, 2011 is explained by the decrease in sales volume.

Long term deposits - the remaining of the originally 3 years time deposits was presented as short-term Deposits since their maturity date is in less then one year.

Marketable securities available for sale - as at September 30, 2011 these amounted to USD 0 thousand compared to USD 953 thousand as at December 31, 2010 and USD 957 thousand as at September 30, 2010.
The decrease in this item resulted from materializing the remaining ARS securities, at 94% from their par value (USD 1,000 thousand) in exchange for USD 940 thousand.

***Fixed assets* -** these amounted to USD 6,183 thousand as at September 30, 2011, compared to USD 1,836 thousand as at December 31, 2010 and USD 1,810 thousand as at September 30, 2010. The increase in this item resulted from purchasing the real-estate property in Israel (See paragraph 1.B above).

***Trade payables* -** these amounted to USD 1,144 thousand as at September 30, 2011 compared to USD 2,211 thousand as at December 31, 2010 and USD 3,303 thousand as at September 30, 2010. The decrease at September 30, 2011 reflects the decrease in sales and business activity.

***Other payables* -** these amounted to USD 995 thousand as at September 30, 2011 compared to USD 2,034 thousand as at December 31, 2010 and USD 1,719 thousand as at September 30, 2010. The decrease is attributed to Company decision to decrease its current liabilities to related parties.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 7-9/11	Quarter 4-6/11	Quarter 1-3/11	Quarter 10-12/10	Quarter 7-9/10
Sales revenues	3,659	4,916	5,717	6,202	7,685
Cost of sales	1,937	2,479	2,875	2,996	4,276
Gross profit	*1,722*	*2,437*	*2,842*	*3,206*	*3,409*
Development costs	(180)	(231)	(189)	(227)	(170)
Selling & marketing expenses	(409)	(442)	(491)	(595)	(580)
General & administrative expenses	(688)	(620)	(649)	(597)	(700)
Other expenses	-	-	-	(349)	-
Operating income	*445*	*1,144*	*1,513*	*1,438*	*1,959*
Finance income (expenses), net	*(141)*	*62*	*204*	(45)	259
Profit before income taxes	*304*	*1,206*	*1,717*	*1,393*	*2,218*
Income taxes	(50)	(260)	(317)	(424)	(507)
Profit for the period	*254*	*946*	*1,400*	*969*	*1,711*

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 2011 went down by 5.4% 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 nine-month period ended September 30, 2011 were USD 14,292 thousand compared with USD 18,688 thousand in the nine-month period ended September 30, 2010. The Group's sales revenues for the three-month period ended September 30, 2011 were USD 3,659 thousand compared with USD 7,685 thousand in the three-month period ended September 30, 2010.

The sales in the nine-month period ended September 30, 2011 were mostly affected by the global slowdown.

Gross profit **-** The Group's gross profit for the nine-month period ended September 30, 2011 amounted USD 7,001 thousand (49% of sales) compared with USD 8,115 thousand (43% of sales) in the nine-month period ended September 30, 2010.

The Group's gross profit for the three-month period ended September 30, 2011 amounted USD 1,722 thousand (47% of sales) compared with USD 3,409 thousand (44% of sales) in the three-month period ended September 30, 2010. The increase in the gross profit ratio relates 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 nine months ended September 30, 2011 were USD 600 thousand compared with USD 492 thousand in the nine months ended September 30, 2010. The increase in these expenses relates mainly to a research process of upgrading materials used in planar transformers.

General & Administrative expenses **-** The Group's General & Administrative expenses for the nine months ended September 30, 2011 amounted USD 1,957 thousand compared with USD 1,872 thousand in the nine months ended September 30, 2010 (see general note above).

Income Taxes **-** Tax expenses for the nine-month period ended September 30, 2011 amounted USD 627 thousand (19.4%), compared with USD 615 thousand tax expenses, for the nine-month period ended September 30, 2010 (14.3%). The increase in the tax rate relates mainly to a decrease in revenues entitled to local tax benefits.

3. <u>Liquidity</u>

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, 2011	**December 31, 2010**	**September 30, 2010**
Current ratio[6]	7.36	4.52	3.98
Quick ratio[7]	6.62	4.13	3.64

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

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

B. Operating activities

Cash flows generated from operating activities for the nine-month period ended September 30, 2011 amounted USD 2,599 thousand compared with cash flows generated from operating activities of USD 1,809 thousand for the nine-month period ended September 30, 2010. The cash flow for the nine-month period ended September 30, 2011 was mostly affected by decrease in trade receivables as result of the decrease in business activity as well as by payoff of current liabilities to related parties and to trade payables.

C. Investing activities

Cash flows used for investing activities in the nine-month period ended September 30, 2011 amounted USD 6,436 thousand, compared with cash flows generated from investing activities of USD 1,248 thousand in the nine-month period ended September 30, 2010.

During the nine-month period ended September 30, 2011 cash flows used for investing activities mainly for investments 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.

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, 2011 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 2011, 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 24, 2011.

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, 2011 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 24, 2011

Condensed Consolidated Interim Statement of Financial Position as at

	Note	September 30 2011 (Unaudited) $ thousands	September 30 2010 (Unaudited) $ thousands	December 31 2010 (Audited) $ thousands
Current assets				
Cash and cash equivalents		**9,096**	9,292	12,932
Short-term deposits		**9,070**	4,941	3,921
Marketable securities held for trading		**1,386**	1,775	1,638
Trade accounts receivable		**2,952**	7,087	5,428
Other accounts receivable		**186**	172	105
Inventory		**2,532**	2,204	2,245
Total current assets		**25,222**	25,471	26,269
Non-current assets				
Long-term deposits		**-**	2,051	2,064
Marketable securities available for sale		**-**	957	953
Other investment		**-**	348	-
Fixed assets	5	**6,183**	1,810	1,836
Deferred taxes		**91**	164	107
Total non-current assets		**6,274**	5,330	4,960
Total assets		**31,496**	30,801	31,229

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

November 24, 2011

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

	September 30 2011	September 30 2010	December 31 2010
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Trade payables	**1,144**	3,303	2,211
Other payables	**995**	1,719	2,034
Current tax liability	**1,288**	1,371	1,571
Total current liabilities	**3,427**	6,393	5,816
Non-current liabilities			
Employee benefits	**259**	211	250
Total non-current liabilities	**259**	211	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	**-**	(44)	(47)
Retained earnings	**13,981**	10,412	11,381
Total equity	**27,810**	24,197	25,163
Total liabilities and equity	**31,496**	30,801	31,229

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
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**14,292**	18,688	**3,659**	7,685	24,890
Cost of sales	**(7,291)**	(10,573)	**(1,937)**	(4,276)	(13,569)
Gross profit	**7,001**	8,115	**1,722**	3,409	11,321
Development costs	**(600)**	(492)	**(180)**	(170)	(719)
Selling and marketing expenses	**(1,342)**	(1,517)	**(409)**	(580)	(2,112)
General and administrative expenses	**(1,957)**	(1,872)	**(688)**	(700)	(2,469)
Other expenses	**-**	(2)	**-**	-	(351)
Operating income	**3,102**	4,232	**445**	1,959	5,670
Finance income	**243**	247	**56**	274	318
Finance expenses	**(118)**	(170)	**(197)**	(15)	(286)
Finance income (expenses), net	**125**	77	**(141)**	259	32
Profit before income taxes	**3,227**	4,309	**304**	2,218	5,702
Income taxes	**(627)**	(615)	**(50)**	(507)	(1,039)
Profit for the period	**2,600**	3,694	**254**	1,711	4,663
Other comprehensive income					
Net change in fair value of available-for-sale assets transferred to profit or loss	**60**	89	**-**	-	89
Net change in fair value of available-for-sale assets	**(13)**	29	**-**	19	26
Total other comprehensive income	**47**	118	**-**	19	115
Total comprehensive income for the period	**2,647**	3,812	**254**	1,730	4,778
Basic earnings per ordinary share (in $)	**0.15**	0.21	**0.01**	0.10	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	Capital fund for available-	Accumulated	
	Number of shares	$ thousands	premium $ thousands	for-sale assets $ thousands	earnings $ thousands	Total $ thousands
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 nine months ended September 30, 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	-	-	-	-	3,694	3,694
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	-	-	-	29	-	29
Total comprehensive income for the period	-	-	-	118	3,694	3,812
Balance at September 30, 2010	17,670,775	4,836	8,993	(44)	10,412	24,197
For the three months ended September 30, 2011 (Unaudited)						
Balance at July 1, 2011	**17,670,775**	**4,836**	**8,993**	**-**	**13,727**	**27,556**
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**

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, 2010 (Unaudited)						
Balance at July 1, 2010	17,670,775	4,836	8,993	(63)	8,701	22,467
Total comprehensive income for the period						
Profit for the period	-	-	-	-	1,711	1,711
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	19	-	19
Total comprehensive income for the period	-	-	-	19	1,711	1,730
Balance at September 30, 2010	17,670,775	4,836	8,993	(44)	10,412	24,197

	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, 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

	For the nine months ended September 30		For the three months ended September 30		Year ended December 31
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Operating activities					
Profit for the period	**2,600**	3,694	**254**	1,711	4,663
Adjustments to reconcile profit to net cash generated from operating activities:					
Depreciation	**233**	206	**83**	71	281
Income taxes	**627**	615	**50**	507	1,039
Capital loss on sale of equipment	**-**	2	**-**	-	3
Impairment loss on other investment	**-**	-	**-**	-	348
Finance (income) expenses, net	**(109)**	(208)	**126**	(328)	(235)
Increase (decrease) in employee benefits	**9**	17	**(17)**	14	56
Decrease (increase) in trade accounts receivable	**2,476**	(4,600)	**1,608**	(961)	(2,941)
(Increase) decrease in other accounts receivable	**(95)**	(31)	**8**	4	35
(Increase) decrease in inventory	**(287)**	(200)	**(265)**	4	(241)
(Decrease) increase in trade payables	**(1,076)**	2,189	**(98)**	444	1,098
(Decrease) increase in other payables	**(1,039)**	481	**(145)**	220	796
Interest received (Note 2C)	**140**	169	**36**	93	269
Tax paid (Note 2C)	**(880)**	(525)	**(128)**	(230)	(691)
Cash flows generated from operating activities	**2,599**	1,809	**1,512**	1,549	4,480
Investing activities					
Proceeds from sale of marketable securities held for trading	**179**	-	**-**	-	103
Proceeds from sale of marketable securities available for sale	**940**	1,886	**-**	-	1,886
(Investments in) proceeds from short-term deposits, net	**(2,984)**	(364)	**(4)**	255	621
Investment in fixed assets (Note 5)	**(4,583)**	(302)	**(2,845)**	(99)	(415)
Proceeds from sale of fixed assets	**12**	28	**-**	6	38
Cash flows (used for) generated from investing activities	**(6,436)**	1,248	**(2,849)**	162	2,233

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 nine months ended September 30		For the three months ended September 30		Year ended December 31
	2011	2010	2011	2010	2010
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
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	**(3,837)**	1,378	**(1,337)**	1,711	5,034
Cash and cash equivalents at beginning of the period	**12,932**	7,961	**10,532**	7,449	7,961
Effect of exchange rate fluctuations on cash held	**1**	(47)	**(99)**	132	(63)
Cash and cash equivalents at end of the period	**9,096**	9,292	**9,096**	9,292	12,932

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, 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 subsidiary and distributors.

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2010 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on November 24, 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.

C. Statement of Cash Flows

As from the condensed consolidated interim financial statements as at September 30, 2011, cash flows from interest received and cash flows arising from taxes on income, which were presented in past periods as supplementary disclosure at the bottom of the cash flows statement, are disclosed separately within cash flows from operating activities.
Prior periods are presented accordingly.

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

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

The new suite of standards replaces existing standards regarding consolidation of financial statements and joint arrangements and includes a number of changes with respect to investments in associates.

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.

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) **IFRS 10 *Consolidated Financial Statements* (hereinafter - "IFRS 10") (cont'd)**

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.
- 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.
- IFRS 10 provides a definition of protective rights, while there is no such definition in existing IFRS.
- 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 applicable retrospectively (with a certain relief) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided and that the entire consolidation suite is early adopted, meaning also the two additional standards that were issued - IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Involvement with Other Entities*.

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)

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

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

IFRS 12 is applicable 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, meaning also the two additional standards published - IFRS 10 *consolidated financial statements* and IFRS 11 *joint arrangements*.

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 the standards in its financial statements.

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.

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 *Share-Based Payment* and leasing transactions within the scope of IAS 17 *Leases*. IFRS 13 does not apply to measurements that are similar to but are not fair value (such as the measurement of the net realizable value of inventory, in accordance with IAS 2 *Inventories*, and the measurement of value in use, in accordance with IAS 36 *Impairment of Assets*).

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 3 - Significant Accounting Policies (cont'd)

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

D. Amendments to IAS 1, *Presentation of Financial Statements:* Presentation of Items of Other Comprehensive Income (hereinafter - “the amendment”)

The amendment changes the presentation of items of other comprehensive income (hereinafter - “OCI”) in the financial statements, so that items of OCI that may be reclassified to profit or loss in the future, would be presented separately from those that would never be reclassified to profit or loss. Additionally, the amendment changes the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income. However, entities are still allowed to use other titles. The amendment is effective for annual periods beginning on or after July 1, 2012. The amendment will be applied retrospectively. Early adoption is permitted providing that disclosure is provided.

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

E. Amendment to IAS 19, *Employee benefits* (hereinafter - “the amendment”)

The amendment introduces a number of changes to the accounting treatment of employee benefits.

The key changes are as follows:

- The amendment eliminates the possibility of postponing recognition of actuarial gains and losses, known as the “corridor” and, in addition, eliminates the option of recognizing actuarial gains and losses directly in profit or loss. As a result, all actuarial gains and losses will be recognized immediately in equity through other comprehensive income.
- The amendment requires immediate recognition of past service costs regardless of whether the benefits have vested or not.
- The calculation of net interest income or expense will be determined by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset). Accordingly, calculation of actuarial gains or losses will also change.
- The amendment changes the definitions of short-term employee benefits and of other long term employee benefits, so that the distinction between the two will depend on when the entity expects the benefits to be wholly settled, rather than when settlement is due.
- The amendment enhances the disclosure requirements for defined benefit plans, in an effort to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.
- The definition of termination benefits has been clarified so that termination benefits are recognized at the earlier of when the entity recognizes, in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, costs for a restructuring that includes the payment of termination benefits, and when the entity can no longer withdraw the offer of the termination benefits

The amendment is applicable retrospectively (excluding certain exceptions stated in the standard) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided.

Note 3 - Significant Accounting Policies (cont'd)

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

E. Amendment to IAS 19, *Employee benefits* (hereinafter - “the amendment”) (cont’d)

The Group has not yet started assessing the effects of adopting the amendment in its financial statements

Note 4 - Marketable Securities Available For Sale

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.

Note 5 - Real Estate Property Purchase

On August 16, 2011 the transaction was completed and the Company received the possession rights.

Note 6 - Subsequent Events

On September 18, 2011 the Company's Board of Directors approved the purchase agreement (effective date - January 1, 2012) of the business activity of Payton Technologies (1991) Ltd, a sister-company fully owned by the parent company (Payton Industries), for the amount of NIS 5.6 million (about € 1.1 million) (the "Purchase Agreement"). The said amount was based on a valuation prepared by an external, independent appraiser as of June 30, 2011, and maybe adjusted, accordingly, if the operating assets of Payton Technologies, net, as of December 31, 2011 will differ by more than 5% from their value as at June 30, 2011.

According to the Purchase Agreement, all key executive officers, employed by the parent company shall, as of January 1, 2012, be employed directly by the Company (with no significant changes in the costs allocated to the Company).

In addition to the approval of the Purchase Agreement and as a part of the organizational changes, the Company’s Board of directors approved the following:

- Nomination of Mr. Doron Yativ (the son of Mr. David Yativ, serves as a director and during the past 10 years as Payton's V.P. Marketing and Business development) as the Company's C.E.O.
- Nomination of Mr. David Yativ (in the past years Chairman & C.E.O., the founder and controlling shareholder of Payton Industries) as an Active Chairman and the Management Services Agreement between the Company and David Yativ, Technologies and management Ltd (a private company fully owned by Mr. David Yativ).

On November 8, 2011 the Shareholders General Meeting approved all the resolutions approved by the Company's Board of director on September 18, 2011.