PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
March 31, 2010 (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, 2010.

***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 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. <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 2010

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 Company completed its initial public offering in 1998 on the Euronext Stock Exchange.

- **Signing MOU licensing mass production - January 13, 2010 -** The Company signed a Memorandum of Understanding ("MOU") with the Korean company Bujeon Electronics Co. ("Bujeon"). Under the terms of the MOU, Bujeon will be licensed to manufacture Planar Transformers for the TV and monitor markets.

Bujeon has mass production capabilities and specialises in the manufacturing of conventional inductive components to telecom, acoustic and computing markets.

Both companies have been introduced to each other by a present customer of Payton, a major global electronics company in Korea, in order to enable it to integrate the Planar Transformers in its mass consumer electronic products.

According to the MOU, Bujeon is granted manufacturing and sales rights of Payton's unique Planar Transformers, to the TV and monitors markets, for 5 years, subject to minimum quotas of sales. In a first phase, Payton's products will be manufactured and supplied by Bujeon to Payton on an OEM-basis. The second phase will include royalty payments to Payton once Bujeon is recognized as an approved vendor.

The Company considers this engagement as a strategic opportunity for the mass consumer electronics market.

[1] The financial statements as at March 31, 2010 form an integral part thereof.

As planned, the manufacturing & deliveries from this facility started on April 2010. The Company continues to train and support it's manufacturing partners in China.

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**
	2010	**2009**	**2009**
Customer A	20.8%	*	*
Customer B	*	16.7%**	*
Customer C	*	11.9%	26.7%
Customer D	17.7%	*	*

* Less than 10% of the Group's consolidated sales.
** It is noted that the major project of this customer ended on September 2009.

D. Marketing

During 2010 the Group participated in the following exhibitions:

- January 2010, "Hespek & Bakara, New-tech 2010" exhibition in Tel-Aviv, Israel.
- February 2010, "APEC 2010" exhibition in California, U.S.A.
- March 2010, "Technology Hi-tech 2010" exhibition in Tel-Aviv, Israel.
- May 2010, PCIM in Nurnberg, Germany.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of March 31, 2010 were USD 10,043 thousand (December 31, 2009 - USD 6,400 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.3.10 will be supplied until December 31, 2010.

2. <u>Financial position</u>

A. Statement of Financial Position as at March 31, 2010

***Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits* -** these items amounted to a total of USD 12,900 thousand as at March 31, 2010 compared to USD 14,176 thousand as at December 31, 2009 and USD 14,043 thousand as at March 31, 2009. The decrease, compared with December 31, 2009, resulted mainly of dividend payment in the amount of USD 1,679 thousand. The dividend announced On November 2009 (USD 0.095 per share) was paid off on January 2010.

Trade accounts receivable **-** these amounted to USD 3,519 thousand as at March 31, 2010 compared to USD 2,487 thousand as at December 31, 2009 and USD 3,016 thousand as at March 31, 2009. The increase in this item at March 31, 2010, compared to December 31, 2009 is explained by the increase in sales volume.

Marketable securities available for sale (non- current assets) - these amounted to USD 1,842 thousand as at March 31, 2010 compared to USD 2,813 thousand as at December 31, 2009 and USD 2,710 thousand as at March 31, 2009. The decrease in this item resulted by sale of one of these ARS securities, at USD 960 thousand (Par value - USD 1,000 thousand, a rate of 96% of par value).
The remaining balance represents Company's holding of securities with an Auction Reset feature ("ARS"), which their fair value was assessed by a professional external appraisers company. See detailed information regarding Fair value analysis at paragraph B below.

Trade payables **-** these amounted to USD 1,671 thousand as at March 31, 2010 compared to USD 1,128 thousand as at December 31, 2009 and USD 1,227 thousand as at March 31, 2009. The increase at March 31, 2010 is explained by the increase in business activity.

Other payables **-** these amounted to USD 954 thousand as at March 31, 2010 compared to USD 1,238 thousand as at December 31, 2009 and USD 752 thousand as at March 31, 2009. The decrease at March 31, 2010 compared with December 31, 2009 is mainly explained by a decrease in current liabilities to related parties.

Dividend payable **-** As at December 31, 2009 these amounted to USD 1,679 thousand. The dividend announced on November 2009 was paid off on January 2010.

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.

Starting year 2008 and in light of the liquidity crisis in the American market, the Company appealed for a valuation regarding the fair value of the ARS it holds.
During the first qurter of 2010 the Company accepted an offer to materialize one of its ARS securities at a rate of 96% from its par value, (Par value - USD 1,000 thousand). In exchange for this sale of ARS the Company received USD 960 thousand.

As at March 31, 2010 the fair value of the remaining ARS was assessed at the amount of USD 1,842 thousand, compared to USD 1,863 thousand as at December 31, 2009 (Par value - USD 1,975 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.

Furthermore, 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 intends to hold them for a long-term or until their value rises back to their par value or near to it. Therefore and in accordance with IAS 39, the Company did not recognize impairment of the securities.

The balance of the securities as at March 31, 2010 and 2009 and as at December 31, 2009 was presented as long-term available for sale securities.

C. **Operating results**

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 1-3/10	**Quarter 10-12/09**	**Quarter 7-9/09**	**Quarter 4-6/09**	**Quarter 1-3/09**
Sales revenues	3,944	3,603	4,017	3,673	2,712
Cost of sales	2,533	2,201	2,451	2,318	1,716
Gross profit	*1,411*	*1,402*	*1,566*	*1,355*	*996*
Development costs	(164)	(151)	(162)	(148)	(146)
Selling & marketing expenses	(368)	(342)	(306)	(227)	(185)
General & administrative expenses	(511)	(641)	(503)	(502)	(426)
Other income (expenses)	-	-	-	1	(1)
Operating income	*368*	*268*	*595*	*479*	*238*
Finance (expenses) income, net	(40)	54	248	353	(85)
Profit before income taxes	*328*	*322*	*843*	*832*	*153*
Income taxes	(92)	(65)	(228)	(270)	48
Net profit for the period	*236*	*257*	*615*	*562*	*201*

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/devaluation of the local Israeli currency drives to an increase/decrease (respectively) in labor costs and other operating costs, thus, affects the operating results of the Company. The average rate of the USD with relation to the NIS, during the first quarter of 2010, went down by 5% compared with average rate of year 2009, and by 8% compared with average rate of the first quarter 2009, reflecting an increase in the above-mentioned costs when they are presented in USD.
Revaluation of the U.S. Dollar with relation to the Euro has an influence on the Group's gross margin.

***Sales revenues* -** The Group's sales revenue for the three-month period ended March 31, 2010 were USD 3,944 thousand compared with USD 2,712 thousand in the three-month period ended March 31, 2009. The sales were mostly affected by the global upturn.

***Gross profit* -** The Group's gross profit for the three-month period ended March 31, 2010 amounted USD 1,411 thousand (36% of sales) compared with USD 996 thousand (37% of sales) in the three-month period ended March 31, 2009. The Group's gross profit ratio for the year ended December 31, 2009 was 38% of sales.

***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, 2010 were USD 164 thousand.

***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-month period ended March 31, 2010 amounted USD 368 thousand compared with USD 185 thousand in the three-month period ended March 31, 2009. The increase in these expenses resulted mainly of:

- Increase in traveling expenses mainly in order to train and support Payton's subcontractors facilities in China.
- Increase in marketing commissions in correlation to the sales increase.

***Finance income (expenses), net* -** The Group's finance expenses for the three-month period ended March 31, 2010 amounted USD 40 thousand. Global interest rates decrease, along with erosion of cash & cash equivalent in euro versus the US Dollar, and with recognizing the loss from selling the ARS Marketable Securities available for sale, attributed these expenses.

***Income Taxes* -** Income from taxes in the three months period ended March 31, 2009 derives from the erosion in the tax liability. As a result of the decrease in the exchange rate of the NIS in relation to the dollar during the said quarter, the erosion (tax income) was higher than the tax expense.

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, 2010*	**December 31, 2009***	**March 31, 2009**
Current ratio[2]	4.87	3.61	5.48
Quick ratio[3]	4.33	3.22	4.87

* As at March 31, 2010 and as at December 31, 2009 - USD 2,026 thousands and USD 2,014 thousands, respectively, are presented as Long-term Deposits consisted of 3 years time deposits; enable a penalty free exit point after each year.

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

B. Operating activities

Cash flow used for operating activities for the three-month period ended March 31, 2010 amounted USD 457 thousand, compared with Cash flow generated from operating activities of USD 500 thousand for the three-month period ended March 31, 2009. This cash flow decrease resulted mainly from the increase in trade receivables, arising of the increase in business activity.

C. Investing activities

Cash flow generated from investing activities in the three-month period ended March 31, 2010, amounted USD 247 thousand, compared with a use of cash flow in the amount of USD 1,549 thousand in the three-month period ended March 31, 2009.

Cash flow generated from investing activities in the first quarter of 2010 resulted mainly from proceed from sale of marketable securities offset by investment in short-term deposits.

D. Financing activities

Cash flow used for financing activities in the three-month period ended March 31, 2010, amounted USD 1,679 thousand representing a payment of dividend.

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 27, 2010.

Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

Review Report to the Shareholders of Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying financial information of Payton Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of March 31, 2010 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.

We did not review the condensed interim financial information of a subsidiary whose assets constitute 9% of the total consolidated assets as at March 31, 2010, and whose revenues constitute 16% of the total consolidated revenues for the three - month period then ended. The condensed interim financial information of the subsidiary was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such company, is based solely on the said review reports of the other auditors.

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 and the review reports of other auditors, 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 27, 2010

Condensed Consolidated Interim Statement of Financial Position as at

	March 31 2010	March 31 2009	December 31 2009
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Current assets			
Cash and cash equivalents	**6,002**	7,113	7,961
Marketable securities held for trading	**1,720**	1,091	1,683
Short-term deposits	**5,178**	5,839	4,532
Trade accounts receivable	**3,519**	3,016	2,487
Other accounts receivable	**149**	64	111
Inventory	**2,065**	2,142	2,004
Total current assets	**18,633**	19,265	18,778
Non-current assets			
Long-term deposits	**2,026**	-	2,014
Marketable securities available for sale	**1,842**	2,710	2,813
Other investment	**348**	348	348
Property, plant and equipment, net	**1,747**	1,779	1,758
Deferred taxes	**87**	73	71
Total non-current assets	**6,050**	4,910	7,004
Total assets	**24,683**	24,175	25,782

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

Michal Lichtenstein
V.P. Finance & CFO

May 27, 2010

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

	March 31 2010	March 31 2009	December 31 2009
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Trade payables	**1,671**	1,227	1,128
Other payables	**954**	752	1,238
Dividend payable	**-**	-	1,679
Current tax liability	**1,204**	1,535	1,158
Total current liabilities	**3,829**	3,514	5,203
Non-current liabilities			
Employee benefits	**204**	134	194
Total non-current liabilities	**204**	134	194
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Capital fund for available-for-sale assets	**(133)**	(265)	(162)
Accumulated earnings	**6,954**	6,963	6,718
Total equity	**20,650**	20,527	20,385
Total liabilities and equity	**24,683**	24,175	25,782

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
	2010	**2009**	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Revenues	**3,944**	2,712	14,005
Cost of sales	**(2,533)**	(1,716)	(8,686)
Gross profit	**1,411**	996	5,319
Development costs	**(164)**	(146)	(607)
Selling and marketing expenses	**(368)**	(185)	(1,060)
General and administrative expenses	**(511)**	(426)	(2,072)
Other expenses	**-**	(1)	-
Operating income	**368**	238	1,580
Finance income	**100**	79	599
Finance expenses	**(140)**	(164)	(29)
Finance (expenses) income, net	**(40)**	(85)	570
Profit before income taxes	**328**	153	2,150
Income taxes (Note 4)	**(92)**	48	(515)
Net profit for the period	**236**	201	1,635
Other comprehensive income			
Net change in fair value of available-for-sale assets transferred to profit or loss	**40**	-	-
Net change in fair value of available-for-sale assets	**(11)**	50	153
Total comprehensive income for the period	**265**	251	1,788
Basic and diluted earnings per ordinary share (in $)	**0.01**	0.01	0.09

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 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						
Net profit for the period	**-**	**-**	**-**	**-**	**236**	**236**
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	**-**	**-**	**-**	**50**	**-**	**50**
Net change in fair value of available-for-sale assets	**-**	**-**	**-**	**(21)**	**-**	**(21)**
Balance at March 31, 2010	**17,670,775**	**4,836**	**8,993**	**(133)**	**6,954**	**20,650**
For the three months ended March 31, 2009 (Unaudited)						
Balance at January 1, 2009	17,670,775	4,836	8,993	(315)	6,762	20,276
Total comprehensive income for the period						
Net profit for the period	-	-	-	-	201	201
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	50	-	50
Balance at March 31, 2009	17,670,775	4,836	8,993	(265)	6,963	20,527
For the year ended December 31, 2009 (Unaudited)						
Balance at January 1, 2009	17,670,775	4,836	8,993	(315)	6,762	20,276
Total comprehensive income for the period						
Net profit for the year	-	-	-	-	1,635	1,635
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	153	-	153
Total comprehensive income for the year	-	-	-	153	1,635	1,788
Transactions with owners, recorded directly in equity, contributions by and distribution to owners						
Dividend to equity holders	-	-	-	-	(1,679)	(1,679)
Balance at December 31, 2009	17,670,775	4,836	8,993	(162)	6,718	20,385

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,
	2010	**2009**	**2009**
	(Unaudited)	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**
Net Operating activities			
Net profit for the period	**236**	201	1,635
Adjustments to reconcile net profit to net cash (used for) generated from operating activities:			
Depreciation	**67**	63	256
Capital loss on sale of equipment	**-**	1	-
Increase (decrease) in employee benefits	**10**	(18)	42
(Increase) decrease in trade receivables	**(1,032)**	700	1,229
Decrease (increase) in other accounts receivable	**5**	(6)	(53)
(Increase) decrease in inventory	**(61)**	(70)	68
Increase (decrease) in trade payables	**554**	(250)	(344)
Decrease in other payables and tax liability	**(281)**	(370)	(261)
(Increase) decrease in deferred taxes	**(16)**	17	19
Finance expenses (income), net	**61**	232	(112)
Cash flows (used for) generated from operating activities	**(457)**	500	2,479
Investing activities			
Investments in marketable securities held for trading	**-**	-	(784)
Proceeds from sale of marketable securities held for trading	**-**	-	442
Proceeds from sale of marketable securities available for sale	**960**	-	-
Investments in short-term deposits, net	**(646)**	(1,340)	(33)
Investments in long-term deposits, net	**-**	-	(2,014)
Investment in property, plant and equipment	**(67)**	(214)	(392)
Proceeds from sale of equipment	**-**	5	7
Cash flows generated from (used for) investing activities	**247**	(1,549)	(2,774)
Financing activities			
Dividend paid	**(1,679)**	-	-
Cash flows used for financing activities	**(1,679)**	-	-
Net decrease in cash and cash equivalents	**(1,889)**	(1,049)	(295)
Cash and cash equivalents at beginning of the period	**7,961**	8,230	8,230
Effect of exchange rate fluctuations on cash held	**(70)**	(68)	26
Cash and cash equivalents at end of the period	**6,002**	7,113	7,961
Supplementary disclosure			
Interest received included in cash flows generated from (used for) operating activities	**39**	58	309
Tax paid included in cash flows generated from (used for) operating activities	**106**	5	943

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Note 1 - General

A. 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.

B. The Company 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. The 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, 2009 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on May 27, 2010.

B. 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

Business combinations and transactions with non-controlling interests

As from January 1, 2010 the Group implements IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – IFRS 3 and IAS 27, respectively).

Note 3 - Significant Accounting Policies (cont'd)

(1) Initial implementation of new standards (cont'd)

Business combinations and transactions with non-controlling interests (cont'd)

The principal revisions are as follows:

- The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.
- Transactions resulting in the parent company losing control over a subsidiary are to be accounted for so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.
- In business combinations achieved in stages, the difference between the fair value at the first date of consolidation and the carrying amount of the original investment at that date, is recognized in profit or loss.
- Non-controlling interests will be measured at the date of the business combination at either fair value, or at their proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
- Transactions with non-controlling interests while retaining control are accounted for as equity transactions, so that any difference between the consideration paid or received and the change in non-controlling interests is included in the share of the Company’s owners in equity.
- Costs associated with the acquisition that were incurred by the acquirer in respect of the business combination are accounted for as an expense in the period they are incurred and the services are received.
- Contingent consideration is measured at fair value at the date of the business combination. Subsequent to the date of acquisition, changes in the fair value of a contingent consideration classified as a financial liability are recognized in profit or loss.
- Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of the business combination.
- Profit or loss and any part of other comprehensive income are allocated to the equity holders of the Company and the non-controlling interests, even when the result is a negative balance of the non-controlling interests.
- The discounted exercise price of a put option granted by the Group to non-controlling interests is recognized as a financial liability. In subsequent periods, changes in value of the liability are recognized in profit or loss.
- On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination, even if it is not included in the financial statements of the acquiree, if there is a present obligation resulting from past events and its fair value can be reliably measured.
- The definition of non-controlling interests has been broadened and includes in it additional components such as: the equity component of convertible debentures of subsidiaries, share-based payments that will be settled with equity instruments of subsidiaries and share options of subsidiaries.

The revisions to the accounting policies that are described above are applied on a prospective basis.

Note 3 - Significant Accounting Policies (cont'd)

(2) New standards and interpretations not yet adopted

In the framework of *Improvements to IFRSs* 2010, in May 2010 the IASB published and approved 11 amendments to IFRS and to one interpretation on various accounting issues. Most of the amendments shall apply to periods beginning on or after January 1, 2011 and permit early adoption, subject to the specific conditions of each amendment.

Presented hereunder are the amendments that have not been early adopted and may be relevant to the Group, and which are expected to have an effect on the financial statements:

- Amendment to IAS 34 *Interim Financial Reporting* - Significant events and transactions (hereinafter - "the Amendment") - The Amendment expanded the list of events and transactions that require disclosure in interim financial statements, such as the recognition of a loss from the impairment of financial assets and changes in the classification of assets as a result of changes in their purpose or use.
  In addition, the materiality threshold was removed from the minimum disclosure requirements included in the Standard before its amendment. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

- Amendment to IAS 1 *Presentation of Financial Statements* - Presentation of statement of changes in equity (hereinafter - "the Amendment") - In accordance with the Amendment a reconciliation between the carrying amount at the beginning of the period and the carrying amount at its end for each component of equity is required to be presented in the statement of changes in equity, while separately disclosing changes arising from profit or loss, other comprehensive income and transactions with the owners in their capacity as owners. Such a reconciliation should also be presented for each component of other comprehensive income either in the statement of changes in equity or in the notes. The Amendment is effective for annual periods beginning on or after January 1, 2011. Early application is permitted and is required to be disclosed.

Note 4 - Income Taxes

Non-application of International Financial Reporting Standards (IFRS) for tax purposes

On February 4, 2010 Amendment 174 to the Income Tax Ordinance – Temporary Order for Tax Years 2007, 2008 and 2009 was published in the official gazette (hereinafter – "the Amendment to the Ordinance"). In accordance with the Amendment to the Ordinance, Israeli Accounting Standard No. 29 regarding the adoption of International Financial Reporting Standards (IFRS) shall not apply when determining the taxable income for those years even if it was applied when preparing the financial statements.

As yet there is no legislation regarding the non-application of International Financial Reporting Standards (IFRS) with respect to the taxable income for 2010.

The effect on the financial statements of the Amendment to the Ordinance with respect to the taxable income for the years 2007-2009 is immaterial.