PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.
and it's Consolidated Subsidiaries
Financial Statements
September 30, 2006 (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 ended on September 30, 2006.

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 2006

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.

On November 2006, the Company came to a decision to expand and modernize its Printed Circuits Board (“PCB”) facility in Ashkelon, Israel. This plant specializes in manufacturing of Heavy Copper PCB’s and Multi-Layers Boards unique for Planar Transformers and Power Electronic applications. The estimated investment involved will be USD 1.5 -2.0 millions. In this respect the Company shall apply to the Israeli Ministry of Industry and Commerce with an investment program in order to obtain grants and/or tax benefits.

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
	2006	2005	2005
Customer A	15.5%	14.7%	16.0%
Customer B	11.9%	*	10.2%
Customer C	18.3%	17.4%	14.0%

* Less than 10% of the Group’s consolidated sales

[1] The financial statements as at September 30, 2006 form an integral part thereof.

D. Marketing

On March 2006 the Company participated in: "APEC 2006" exhibition in Dallas Texas, U.S.A. in "Electronica & Productronica China 2006 with PCIM" exhibition in Shanghai, China, in "Del Mar" exhibition in California, U.S.A and in "Electronica" exhibition in Tel-Aviv, Israel. On June 2006 the Company participated in "PCIM" exhibition in Nuremberg, Germany.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of September 30, 2006 was USD 7,271 thousand (December 31, 2005 - USD 3,620 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 30.9.06 will be supplied until the end of the first quarter of 2007.

2. Financial position

A. Balance Sheet as at September 30, 2006

Cash and cash equivalents – these amounted to a total of USD 6,302 thousand as at September 30, 2006 compared to USD 3,182 thousand as at December 31, 2005 and USD 2,449 thousand as at September 30, 2005. This increase resulted mainly of the net income for the period.

Marketable securities **–** As of September 30, 2006, these amounted to USD 404 thousands, comprised of LGM Funds, AAA bonds and Preferred Stocks.

Short-term Deposits **–** As of September 30, 2006, these amounted to USD 1,314 thousands compared to USD 1,029 thousand as at December 31, 2005 and USD 1,181 thousand as at September 30, 2005.
(As of 31.12.05 & 30.9.05 an amount of USD 550 thousands served as a guaranty against the short-term loan).

Trade accounts receivable– these amounted to USD 4,384 thousand as at September 30, 2006 compared to USD 3,151 thousand as at December 31, 2005 and USD 2,864 thousand as at September 30, 2005. The increase in this item is mainly due to the increase in sales volume.

Deferred Taxes **–** As of September 30, 2006, these amounted to USD 142 thousands. A net decrease of USD 301 thousands compare with December 31, 2005 due to use of deferred tax asset as result of taxable income.

Short-term bank credit –A decrease of USD 580 thousand compared with December 31, 2005, which resulted from repayments of short-term bank loan.

Trade payables - these amounted to USD 1,789 thousand as at September 30, 2006 compared to USD 1,223 thousand as at December 31, 2005 and USD 885 thousand as at September 30, 2005. The increase in this item resulted mainly due to an increase in material purchasing as result of the growth in the Company's operation volume.

Other payables - these amounted to USD 1,445 thousand as at September 30, 2006 compared to USD 883 thousand as at December 31, 2005 and USD 840 thousand as at September 30, 2005. The increase at September 30, 2006 resulted mainly due to an increase in liabilities to related parties.

Loan from Payton Industries Ltd. (parent company) – was classified from non-current liabilities due to the company decision to repay this loan by the end of 2006.

B. Operating results

Summary of Consolidated Quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Quarter 7-9/06	Quarter 4-6/06	Quarter 1-3/06	Quarter 10-12/05	Quarter 7-9/05
Sales revenues	5,877	5,064	3,670	4,056	3,353
Cost of sales	2,842	2,411	2,030	2,193	1,790
Gross profit	*3,035*	*2,653*	*1,640*	*1,863*	*1,563*
Development costs	122	133	129	116	120
Selling & marketing expenses	363	388	299	322	251
General & administrative expenses	505	459	408	375	339
Operating income	*2,045*	*1,673*	*804*	*1,050*	*853*
Net financial result	27	41	47	(9)	(6)
Other income	-	-	-	2	-
Profit before taxes on income	*2,072*	*1,714*	*851*	*1,043*	*847*
Taxes on income	(346)	(35)	80	443	-
Net profit for the period	*1,726*	*1,679*	*931*	*1,486*	*847*

Sales revenues - The Group's sales revenues for the nine-month period ended September 30, 2006 were USD 14,611 thousand compared with USD 8,887 thousand in the nine-month period ended September 30, 2005, an increase of 64.4%.

The Group's sales revenue for the three-month period ended September 30, 2006 amounted to USD 5,877 thousand compared with USD 3,353 thousand in the three-month period ended September 30, 2005, an increase of 75.3%.

The sales increase attributed by recurring sales to existing customers and sales to new ones.

Gross result –The Group's gross result for the nine-month period ended September 30, 2006 was USD 7,328 thousand (50% of sales) compared with USD 4,005 thousand (45% of sales) in the nine-month period ended September 30, 2005.

This improvement in the gross results was mainly achieved through the over-all growth in sales volume, production efficiency and partially subcontracting production to the Chinese venture.

Development costs - Payton's R&D strategy is aimed on maintaining the leadership of 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-month period ended September 30, 2006 were USD 384 thousand.

Selling & marketing expenses - 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' that are calculated as a portion of sales. The Group's marketing efforts are concentrated through participation in major power electronic shows throughout the world and by collaborating with its worldwide rep's Network.

General & Administrative expenses - The increase in these expenses in the nine-month period ended September 30, 2006 compared with the nine-month period ended September 30, 2005 is explained mainly by two factors:

1) Starting January 1st, 2006, as a result of the increase in the business activity of the Company, the allocation of the Parent Company's joint G&A expenses was adjusted; 85% (instead of 75%) are allocated to the Company and 15% to Payton Technologies (a subsidiary of the parent company).
2) The Parent Company's joint G&A expenses increased mainly due to management incentives derived of the Group improved sales and profitability.

Taxes on income – In the third quarter of 2006 these amounted to USD 346 thousands net tax expenses.

(It is noted that on the forth quarter of 2005 the group recorded a net income tax benefit amounting USD 443 thousand due to recognizing a deferred tax asset for the first time).

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the balance sheet:

Payton Planar Magnetics Ltd. Consolidated financial ratios			
	September 30, 2006	**December 31, 2005**	**September 30, 2005**
Current ratio[2]	3.96	3.42	3.43
Quick ratio[3]	3.43	2.81	2.76

B. Net operating activities

Cash flows provided by operating activities for the nine-month period ended September 30, 2006 amounted USD 4,493 thousand, compared with the cash flow provided by operating activities of USD 1,768 thousand for the nine-month period ended September 30, 2005. The Increase in Cash flow provided by operating activities resulted mainly from the increase in the net profit for the period.

C. Investing activities

Cash flows used for investing activities in the nine-month period ended September 30, 2006, amounted USD 793 thousand, compared with cash flows used for investing activities of USD 182 thousand in the nine-month period ended September 30, 2005.

Cash flow used for investing activities in the first nine months of 2006 resulted mainly from investments in deposits and marketable securities.

D. Cash flows used for financing activities

Cash flow used for financing activities in the nine-month period ended September 30, 2006, amounted USD 580 thousand, compared with cash flow used for financing activities of USD 630 thousand in the nine-month period ended September 30, 2005. In the nine-month period ended September 30, 2006 the cash flow used for financing activities resulted from repayment of all short-term bank loans.

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

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

4. Financing sources

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

5. External factors effect the Group

To the best of the Board of Directors and management’s knowledge, there have been no significant changes in external factors that may materially effect the Company’s financial position or results of operations.

6. Note

Pursuant to the warrant agreement signed with the bank on 21.6.2001, and following a notice of exercise on net issuance received on 5.11.2006, the Board of Directors decided on November 22, 2006 to issue 70,775 ordinary shares to this bank.
After this issuance the total number of Payton Planar outstanding shares will be increased to 17,670,775.

The Company's Board of Directors wishes to thank our shareholders for their continued confidence in the Group and to extend 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, November 22, 2006.

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

To the Board of Directors
Payton Planar Magnetics Ltd.

We have reviewed the accompanying condensed interim consolidated balance sheet of Payton Planar Magnetics Ltd. as at September 30, 2006 and the related condensed consolidated interim statements of income, changes in shareholders' equity and cash flows for the nine and three months then ended (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our 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 identifiable in an audit. Accordingly, we do not express an audit opinion.

We received a review report of another auditor regarding the interim financial statements of a subsidiary whose assets constitute 8% of the total consolidated assets as at September 30, 2006 and whose revenues constitute 10% and 8% of the total consolidated revenues for the nine and three months then ended, respectively.

Based on our review, including the reading of the review report of the other auditor as stated above, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting.

Somekh Chaikin
Certified Public Accountants (Isr.)
(Member Firm of KPMG International)

November 22, 2006

Condensed Consolidated Interim Balance Sheets

	September 30 2006	September 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current Assets			
Cash and cash equivalents	**6,302**	2,449	3,182
Marketable securities	**404**	-	-
Short-term deposits	**1,314**	1,181	1,029
Trade accounts receivable	**4,384**	2,864	3,151
Other accounts receivable	**119**	106	176
Inventory	**1,913**	1,608	1,635
Total current assets	**14,436**	8,208	9,173
Non-current assets			
Deposits	**6**	6	6
Other investments	**348**	348	348
Property, plant and equipment, net	**523**	609	562
Deferred taxes	**142**	-	443
Total non-current assets	**1,019**	963	1,359
Total assets	**15,455**	9,171	10,532

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

Michael Perez
Director

Michal Lichtenstein
V.P. Finance & CFO

November 22, 2006

	September 30 2006	September 30 2005	December 31 2005
	(Unaudited)	(Unaudited)	(Audited)
	US$ thousands	US$ thousands	US$ thousands
Current liabilities			
Short-term bank credit	**-**	670	580
Trade payables	**1,789**	885	1,223
Other payables	**1,445**	840	883
Loan from Payton Industries Ltd. - parent company	**412**	-	-
Total current liabilities	**3,646**	2,395	2,686
Non-current liabilities			
Loan from Payton Industries Ltd. - parent company	**-**	814	406
Liability for employee severance benefits, net	**125**	101	104
Total non-current liabilities	**125**	915	510
Shareholders' equity			
Share capital	**4,819**	4,819	4,819
Share premium	**9,020**	9,019	9,008
Accumulated deficit	**(2,155)**	(7,977)	(6,491)
Total shareholders' equity	**11,684**	5,861	7,336
Total liabilities and shareholders' equity	**15,455**	9,171	10,532

The accompanying notes are an integral part of the interim financial statements.

Condensed Consolidated Interim Statements of Income

	For the nine months ended		For the three months ended		For the year ended
	September 30 2006	September 30 2005	September 30 2006	September 30 2005	December 31 2005
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Revenues	**14,611**	8,887	**5,877**	3,353	12,943
Cost of sales	**7,283**	4,882	**2,842**	1,790	7,075
Gross profit	**7,328**	4,005	**3,035**	1,563	5,868
Development costs	**384**	353	**122**	120	469
Selling and marketing expenses	**1,050**	803	**363**	251	1,125
General and administrative expenses	**1,372**	963	**505**	339	1,338
Operating income	**4,522**	1,886	**2,045**	853	2,936
Net financial results	**115**	(71)	**27**	(6)	(80)
Other income	**-**	2	**-**	-	4
Profit before income taxes	**4,637**	1,817	**2,072**	847	2,860
Taxes on income	**(301)**	-	**(346)**	-	443
Net profit for the period	**4,336**	1,817	**1,726**	847	3,303
Basic and diluted earnings per ordinary share (in US$)	**0.25**	0.10	**0.10**	0.05	0.19

The accompanying notes are an integral part of the financial statements.

Condensed Interim Statement of Changes in Shareholders' Equity

	Share capital				
	Number of shares	**Amount**	**Share premium**	**Accumulated deficit**	**Total**
		US$ thousands			
Balance at January 1, 2006 (Audited)	**17,600,000**	**4,819**	**9,008**	**(6,491)**	**7,336**
Capital reserve from transaction with controlling shareholder (unaudited)	**-**	**-**	**12**	**-**	**12**
Net profit for the period (unaudited)	**-**	**-**	**-**	**4,336**	**4,336**
Balance at September 30, 2006 (Unaudited)	**17,600,000**	**4,819**	**9,020**	**(2,155)**	**11,684**
Balance at January 1, 2005 (Audited)	17,600,000	4,819	8,986	(9,794)	4,011
Capital reserve from transaction with controlling shareholder (unaudited)	-	-	33	-	33
Net profit for the period (unaudited)	-	-	-	1,817	1,817
Balance at September 30, 2005 (Unaudited)	17,600,000	4,819	9,019	(7,977)	5,861
Balance at July 1, 2006 (Unaudited)	**17,600,000**	**4,819**	**9,020**	**(3,881)**	**9,958**
Net profit for the period (unaudited)	**-**	**-**	**-**	**1,726**	**1,726**
Balance at September 30, 2006 (Unaudited)	**17,600,000**	**4,819**	**9,020**	**(2,155)**	**11,684**
Balance at July 1, 2005 (Unaudited)	17,600,000	4,819	9,008	(8,824)	5,003
Capital reserve from transaction with controlling shareholder (unaudited)	-	-	11	-	11
Net profit for the period (unaudited)	-	-	-	847	847
Balance at September 30, 2005 (Unaudited)	17,600,000	4,819	9,019	(7,977)	5,861
Balance at January 1, 2005 (Audited)	17,600,000	4,819	8,986	(9,794)	4,011
Capital reserve from transaction with controlling shareholder (audited)	-	-	22	-	22
Net profit for the year (audited)	-	-	-	3,303	3,303
Balance at December 31, 2005 (Audited)	17,600,000	4,819	9,008	(6,491)	7,336

The accompanying notes are an integral part of the interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

	For the nine months ended		For the three months ended		For the year ended
	September 30 2006	September 30 2005	September 30 2006	September 30 2005	December 31 2005
	Unaudited	Unaudited	Unaudited	Unaudited	Audited
	US$ thousands	US$ thousands	US$ thousands	US$ thousands	US$ thousands
Net operating activities					
Net profit for the period	**4,336**	1,817	**1,726**	847	3,303
Adjustments to reconcile net result to net cash used for operating activities:					
Gain from marketable securities	**(4)**	-	**(4)**	-	-
Depreciation	**155**	180	**54**	57	233
Capital gain on sale of equipment	-	(2)	-	-	(4)
Increase (decrease) in employee severance benefits, net	**21**	(8)	**10**	(3)	(5)
Increase in trade receivables	**(1,233)**	(259)	**(375)**	(684)	(546)
Decrease in other accounts receivables	**57**	98	**78**	217	28
(Increase) decrease in inventory	**(278)**	42	**(181)**	113	15
Increase (decrease) in trade payables	**558**	(18)	**195**	124	332
Increase (decrease) in other payables	**562**	(115)	**104**	(45)	(72)
Deferred taxes	**301**	-	**346**	-	(443)
Finance expenses from transaction with a controlling shareholder	**18**	33	**6**	11	44
Cash flows provided by operating activities	**4,493**	1,768	**1,959**	637	2,885
Net investing activities					
Investment in marketable securities	**(400)**	-	**(400)**	-	-
Investment in property, plant and equipment	**(108)**	(111)	**(26)**	(40)	(139)
(Investment in) proceeds from deposits, net	**(285)**	(81)	**114**	(168)	71
Proceeds from sale of equipment	-	10	-	-	22
Cash flows used for investing activities	**(793)**	(182)	**(312)**	(208)	(46)
Net financing activities					
Decrease in short-term bank credit	**(580)**	(630)	**(400)**	(80)	(720)
Repayment of loan to parent company	-	-	-	-	(430)
Cash flows used for financing activities	**(580)**	(630)	**(400)**	(80)	(1,150)
Increase in cash and cash equivalents	**3,120**	956	**1,247**	349	1,689
Cash and cash equivalents at beginning of period	**3,182**	1,493	**5,055**	2,100	1,493
Cash and cash equivalents at end of period	**6,302**	2,449	**6,302**	2,449	3,182

Appendix A - Non-Cash Investing and Financing Activities

Purchase of property and equipment	**16**	20	**16**	16	8
Capital reserve from transactions with controlling shareholder	**12**	33	-	11	22

Appendix B - Supplementary disclosure

Interest paid	**16**	28	**12**	12	37
Interest received	**(120)**	(20)	**(63)**	(18)	(40)

Note 1 - General

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992 in Israel. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company").

B. The Company develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiary and distributors. Its manufacturing activities include manufacture of printed circuits.

Note 2 - Financial Reporting and Accounting Policies

A. The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standard (IFRS) 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, 2005.

B. The accounting policies applied by the Company in these condensed consolidated interim financial statements are the same as those applied in the consolidated financial statements as at December 31, 2005.

C. Results of operations for the nine and three months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006.

D. The preparation of interim financial statements requires management to make judgements, 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 judgements 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 consolidated financial statements as at and for the year ended December 31, 2005.

E. Until December 31, 2005, the joint general and administrative expenses (the expenses) of the Company and of Payton Technologies Ltd. (a subsidiary of the parent company) were allocated 75% to the Company and 25% to Payton Technologies Ltd. Beginning January 1, 2006, due to an increase in the business activity of the Company, the allocation was changed so that 85% of the expenses are allocated to the Company and 15% to Payton Technologies Ltd.

Note 3 - Operating Segments

Segment information, according to the revised IAS 14, is presented in respect of the Group's geographical segments, which is based on the Group's management and internal reporting structure.

The primary format of reporting segment information is geographical based on location of customers.

	Nine months ended September 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**6,087**	**3,047**	**5,477**	**14,611**
Segment result	**1,884**	**943**	**1,695**	**4,522**

	Nine months ended September 30, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	4,506	2,248	2,133	8,887
Segment result	956	477	453	1,886

	Three months ended September 30, 2006 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	**2,319**	**1,287**	**2,271**	**5,877**
Segment result	**815**	**444**	**786**	**2,045**

	Three months ended September 30, 2005 (Unaudited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	1,483	962	908	3,353
Segment result	392	237	224	853

	Year ended December 31, 2005 (Audited)			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	US$ thousands	**US$ thousands**	**US$ thousands**	**US$ thousands**
Segment revenues	5,697	3,067	4,179	12,943
Segment result	1,292	696	948	2,936

Note 4 - Subsequent Balance Sheet Date Event

Pursuant to the warrant agreement signed with the bank on 21.6.2001, and following a notice of exercise on net issuance received on 5.11.2006, the Board of Directors decided on November 22, 2006 to issue 70,775 ordinary shares to this bank.

After this issuance the total number of the Company's outstanding shares will be increased to 17,670,775.