PAYTON PLANAR

Innovation • Design • Performance

Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
June 30, 2016 (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 six months ended on June 30, 2016.

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. 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"), Himag Planar Magnetics Ltd. ("Himag") and 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 June 2016

The Company, an Israeli high-tech enterprise, develops manufactures and markets Planar and Conventional transformers worldwide. The Company was founded in order to revolutionize the traditional approach to the design and manufacture of transformers through the concept of planar transformers. The Company completed its initial public offering in 1998 on the EuroNext Stock Exchange.

No material changes occurred in the Group's activity during the period from January 1st to June 30, 2016.

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 six-month period ended June 30	For the year ended December 31	For the six-month period ended June 30
	2016	2015	2015
Customer A	14%	10%	12%
Customer B	10%	10%	*
Customer C	*	11%	12%

* Less than 10% of the Group's consolidated sales.

[1] The financial statements as at June 30, 2016 form an integral part thereof.

D. Marketing

The Group participates in most leading electronic exhibitions. During 2016 the Group participated in

- APEC in Long Beach California, USA (April 2016), PCIM Europe 2016 Exhibition, Nuremberg, Germany (May, 2016), New-Tech Exhibition, Tel-Aviv, Israel (May, 2016) and others.
- In addition, during 2016, the Company initiated several seminars and conferences in the USA.

E. Order Backlog

Order backlog of the Group as of June 30, 2016 amounted to USD 10,383 thousand (December 31, 2015 - USD 11,010 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 30.6.16 will be supplied until March 31, 2017.

2. Financial position

A. Statement of Financial Position as at June 30, 2016

Cash and cash equivalents and Short-term Deposits **-** these items amounted to a total of USD 17,377 thousand as at June 30, 2016 compared to USD 19,522 thousand as at December 31, 2015 and USD 16,818 thousand as at June 30, 2015.
USD 1,000 thousand as at June 30, 2015 were classified as Long-term deposits, and as such were then presented under the non-current assets.
The decrease in these items, compared with December 31, 2015 is mainly explained by a dividend payment at the amount of USD 3,092 thousand that was paid on January 14, 2016.

Liabilities to bank and others (Current & Non-current Liabilities) **-** amounted to a total of USD 88 thousand as at June 30, 2016 compared with USD 240 thousand as at December 31, 2015 and USD 1,873 thousand as at June 30, 2015. The amount of USD 88 thousand as at June 30, 2016 represents the contingent consideration against the purchase of Himag Solutions Ltd.
As at June 30, 2015 these liabilities comprised of an originally 10 year bank loan in the amount of USD 1,657 thousand (out of which USD 229 thousand are presented as current liabilities) that on October 2015, was paid in full. Additional USD 216 thousand represents the contingent consideration against the purchase of Himag Solutions Ltd.

B. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Quarter 4-6/16	Quarter 1-3/16	Quarter 10-12/15	Quarter 7-9/15	Quarter 4-6/15
Sales revenues	7,498	6,570	6,930	6,859	7,398
Cost of sales	5,120	4,405	4,490	4,399	4,491
Gross profit	*2,378*	*2,165*	*2,440*	*2,460*	*2,907*
Development costs	(273)	(243)	(227)	(236)	(266)
Selling & marketing expenses	(592)	(550)	(565)	(507)	(594)
General & administrative expenses	(790)	(668)	(740)	(707)	(732)
Other income (expenses)	-	(1)	(10)	5	3
Operating income	*723*	*703*	*898*	*1,015*	*1,318*
Finance income (expenses), net	10	83	9	(25)	103
Profit before income taxes	*733*	*786*	*907*	*990*	*1,421*
Income taxes	(127)	(149)	(229)	(135)	(253)
Net profit for the period	*606*	*637*	*678*	*855*	*1,168*
Other comprehensive income items that will not be transferred to profit &loss					
Remeasurement of defined benefit plan, net of taxes	-	1	23	-	-
Total other comprehensive income	-	1	23	-	-
Total comprehensive income for the period	*606*	*638*	*701*	*855*	*1,168*

General Note: The Group is exposed to abrasion of the USD in relation to the NIS, Euro (€) and the Pound (£). 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**.**

***Sales revenues* -** The Group's sales revenues for the six-month period ended June 30, 2016 were USD 14,068 thousand compared with USD 13,583 thousand in the six-month period ended June 30, 2015. Sales revenues in the second quarter of 2016 were USD 7,498 thousand compared with USD 7,398 thousand in the second quarter of 2015.

***Gross profit* -** The Group's gross profit for the six-month period ended June 30, 2016 amounted USD 4,543 thousand (32% of sales) compared with USD 5,137 thousand (38% of sales) in the six-month period ended June 30, 2015. The decrease in the gross profit attributed mainly to material cost of different products mix and different production locations of each quarter sales.

***Selling & marketing expenses* -** The Group's selling & marketing expenses are mainly comprised of: (1) commissions to the Group's reps' and Marketing Personnel, which are calculated as a portion of sales and of (2) other selling expenses (fixed) based on management policy. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.
The Group's Selling & marketing expenses for the six months ended June 30, 2016 amounted to USD 1,142 thousand compared with USD 1,077 thousand in the six months ended June 30, 2015. The increase in selling & marketing expenses relates to expanding our marketing team worldwide.

Finance income (expenses), net - The Group's net finance income for the six-month period ended June 30, 2016 amounted USD 93 thousand compared with a net finance income of USD 20 thousand in the six-month period ended June 30, 2015. The increase in this income resulted mainly from decrease in interest cost to bank, due to the repayment of the long term loan, and due to exchange rate differences.

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			
	June 30, 2016	**December 31, 2015**	**June 30, 2015**
Current ratio[2]	5.75	3.60	5.56
Quick ratio[3]	4.95	3.06	4.77

B. Operating activities

Cash flows generated from operating activities for the six-month period ended June 30, 2016 amounted USD 1,416 thousand, compared with cash flows of USD 2,718 thousand for the six-month period ended June 30, 2015. Cash flows generated from operating activities for the three-month period ended June 30, 2016 amounted USD 1,607 thousand, compared with cash flows of USD 1,651 thousand for the three-month period ended June 30, 2015.
The decrease in the cash flows from operating activities for the six-month period compared with the same period last year resulted mostly from the decrease in the net profit for the period as well as from other changes in assets and liabilities such as the increase in trade receivables.

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

C. Investing activities

Cash flows generated from investing activities in the six-month period ended June 30, 2016, amounted USD 9,225 thousand, compared with USD 268 thousand in the six-month period ended June 30, 2015. Cash flows mostly stemmed from proceeds from bank deposits.

D. Financing activities

Cash flows used for financing activities in the six-month period ended June 30, 2016, amounted USD 3,251 thousand, compared with USD 272 thousand in the six-month period ended June 30, 2015.
A dividend, at the amount of USD 3,092 thousand, that was announced on November 23, 2015 (USD 0.175 per share), was paid in full on January 14, 2016.

4. Financing sources

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

5. External factors effects

Revaluation/devaluation of the local currencies, NIS and GBP, in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Company's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are affected.
Devaluation of the Euro(€) and Pound(£) in relation to the U.S. Dollar leads to a decrease in Group's assets in those currencies.

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 June 30, 2016 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 six months of year 2016, 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.

Ness Ziona, August 16, 2016.

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 statements of financial position as of June 30, 2016 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six 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

August 16, 2016

Condensed Consolidated Interim Statements of Financial Position as at

	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Current assets			
Cash and cash equivalents	**13,384**	7,409	6,004
Short-term deposits	**3,993**	9,409	13,518
Trade accounts receivable	**4,969**	5,780	4,314
Other accounts receivable	**447**	318	317
Current tax assets	**-**	27	-
Inventory	**3,710**	3,810	4,149
Total current assets	**26,503**	26,753	28,302
Non-current assets			
Long-term deposits	**-**	1,000	-
Fixed assets	**12,144**	12,590	12,323
Intangible assets	**816**	944	880
Deferred taxes	**37**	33	33
Total non-current assets	**12,997**	14,567	13,236
Total assets	**39,500**	41,320	41,538

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

Date of approval of the interim financial statements: August 16, 2016

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

	June 30 2016	June 30 2015	December 31 2015
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Liabilities to bank and others	**88**	373	158
Trade payables	**2,770**	2,809	3,061
Other payables	**1,047**	1,043	1,174
Dividend payable	**-**	-	3,092
Current tax liability	**260**	110	71
Employee benefits	**444**	477	350
Total current liabilities	**4,609**	4,812	7,906
Non-current liabilities			
Liabilities to bank and others	**-**	1,500	82
Employee benefits	**353**	392	319
Deferred tax liabilities	**497**	283	434
Total non-current liabilities	**850**	2,175	835
Total liabilities	**5,459**	6,987	8,741
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Retained earnings	**20,212**	20,504	18,968
Total equity	**34,041**	34,333	32,797
Total liabilities and equity	**39,500**	41,320	41,538

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

Condensed Consolidated Interim Statements of Comprehensive Income

	For the six months ended June 30		For the three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**14,068**	13,583	**7,498**	7,398	27,372
Cost of sales	**(9,525)**	(8,446)	**(5,120)**	(4,491)	(17,335)
Gross profit	**4,543**	5,137	**2,378**	2,907	10,037
Development costs	**(516)**	(486)	**(273)**	(266)	(949)
Selling and marketing expenses	**(1,142)**	(1,077)	**(592)**	(594)	(2,149)
General and administrative expenses	**(1,458)**	(1,403)	**(790)**	(732)	(2,850)
Other (expenses) income, net	**(1)**	11	**-**	3	6
Operating profit	**1,426**	2,182	**723**	1,318	4,095
Finance income	**110**	105	**34**	141	160
Finance expenses	**(17)**	(85)	**(24)**	(38)	(156)
Finance income, net	**93**	20	**10**	103	4
Profit before income taxes	**1,519**	2,202	**733**	1,421	4,099
Income taxes	**(276)**	(431)	**(127)**	(253)	(795)
Profit for the period	**1,243**	1,771	**606**	1,168	3,304
Other comprehensive income items that will not be transferred to profit and loss					
Remeasurement of defined benefit plan, net of taxes	**1**	-	**-**	-	23
Total other comprehensive income	**1**	-	**-**	-	23
Total comprehensive income for the period	**1,244**	1,771	**606**	1,168	3,327
Basic earnings per share (in $)	**0.07**	0.10	**0.03**	0.07	0.19

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	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands
For the six months ended June 30, 2016 (Unaudited)					
Balance at January 1, 2016	**17,670,775**	**4,836**	**8,993**	**18,968**	**32,797**
Total comprehensive income for the period					
Profit for the period	**-**	**-**	**-**	**1,243**	**1,243**
Other comprehensive income	**-**	**-**	**-**	**1**	**1**
Total comprehensive income for the period	**-**	**-**	**-**	**1,244**	**1,244**
Balance at June 30, 2016	**17,670,775**	**4,836**	**8,993**	**20,212**	**34,041**
For the six months ended June 30, 2015 (Unaudited)					
Balance at January 1, 2015	17,670,775	4,836	8,993	18,733	32,562
Total comprehensive income for the period					
Profit for the period	-	-	-	1,771	1,771
Total comprehensive income for the period	-	-	-	1,771	1,771
Balance at June 30, 2015	17,670,775	4,836	8,993	20,504	34,333
For the three months ended June 30, 2016 (Unaudited)					
Balance at April 1, 2016	**17,670,775**	**4,836**	**8,993**	**19,606**	**33,435**
Total comprehensive income for the period					
Profit for the period	**-**	**-**	**-**	**606**	**606**
Total comprehensive income for the period	**-**	**-**	**-**	**606**	**606**
Balance at June 30, 2016	**17,670,775**	**4,836**	**8,993**	**20,212**	**34,041**
For the three months ended June 30, 2015 (Unaudited)					
Balance at April 1, 2015	17,670,775	4,836	8,993	19,336	33,165
Total comprehensive income for the period					
Profit for the period	-	-	-	1,168	1,168
Total comprehensive income for the period	-	-	-	1,168	1,168
Balance at June 30, 2015	17,670,775	4,836	8,993	20,504	34,333

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 premium	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands
For the year ended December 31, 2015 (Audited)					
Balance at January 1, 2015	17,670,775	4,836	8,993	18,733	32,562
Total comprehensive income for the year					
Profit for the year	-	-	-	3,304	3,304
Other comprehensive income	-	-	-	23	23
Total comprehensive income for the year	-	-	-	3,327	3,327
Transactions with owners, recognized directly in equity					
Dividend to owners	-	-	-	(3,092)	(3,092)
Balance at December 31, 2015	17,670,775	4,836	8,993	18,968	32,797

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

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended June 30		For the three months ended June 30		Year ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Audited)**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Operating activities					
Profit for the period	**1,243**	1,771	**606**	1,168	3,304
Adjustments to reconcile profit to net cash generated from operating activities:					
Depreciation and amortization	**499**	522	**255**	263	1,049
Income taxes	**276**	431	**127**	253	795
Capital gain on sale of fixed assets	**-**	(11)	**-**	(3)	(16)
Changes in the fair value of contingent consideration	**1**	-	**-**	-	10
Finance income, net	**(48)**	(21)	**(7)**	(69)	(22)
Increase in employee benefits	**128**	198	**83**	168	27
(Increase) decrease in trade accounts receivable	**(655)**	139	**(257)**	(1,082)	1,605
(Increase) decrease in other accounts receivable	**(130)**	104	**300**	263	105
Decrease (increase) in inventory	**439**	(277)	**532**	(122)	(616)
(Decrease) increase in trade payables	**(284)**	(165)	**(169)**	565	15
(Decrease) increase in other payables	**(127)**	(32)	**(15)**	115	99
Interest received	**101**	77	**74**	39	140
Interest paid	**-**	(34)	**-**	(17)	(55)
Tax paid	**(225)**	(226)	**(120)**	(132)	(476)
Tax received	**198**	242	**198**	242	261
Cash flows generated from operating activities	**1,416**	2,718	**1,607**	1,651	6,225
Investing activities					
Proceeds from sale of marketable securities held for trading	**-**	205	**-**	205	205
Proceeds from (investments in) deposits, net	**9,488**	1,034	**8,488**	(2,150)	(2,076)
Investment in fixed assets	**(263)**	(989)	**(109)**	(146)	(1,120)
Proceeds from sale of fixed assets	**-**	18	**-**	10	30
Cash flows generated from (used for) investing activities	**9,225**	268	**8,379**	(2,081)	(2,961)

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 six months ended June 30		For the three months ended June 30		Year ended December 31
	2016	2015	2016	2015	2015
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Financing activities					
Repayment of loan	**-**	(113)	**-**	(56)	(1,766)
Payment of contingent consideration	**(159)**	(159)	**(159)**	-	(159)
Dividend paid	**(3,092)**	-	**-**	-	-
Cash flows used for financing activities	**(3,251)**	(272)	**(159)**	(56)	(1,925)
Net increase (decrease) in cash and cash equivalents	**7,390**	2,714	**9,827**	(486)	1,339
Cash and cash equivalents at the beginning of the period	**6,004**	4,692	**3,573**	7,840	4,692
Effect of exchange rate fluctuations on cash and cash equivalents	**(10)**	3	**(16)**	55	(27)
Cash and cash equivalents at the end of the period	**13,384**	7,409	**13,384**	7,409	6,004

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. The address of the Company’s registered office is 3 Ha’avoda Street, Ness-Ziona. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). The securities of the Company are registered for trade on the Euronext stock exchange in Brussels.

The condensed consolidated interim financial statements of the Group as at June 30, 2016 comprise the Company and its subsidiaries (together referred as the “Group”).

The Group develops, manufactures and markets planar and conventional transformers and operates abroad through its subsidiaries 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, 2015 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on August 16, 2016.

B. Use of estimates and judgments

The preparation of interim financial statements in accordance to IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements.

Note 3 - Significant Accounting Policies

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 4 - Income Taxes

On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (No. 216) - 2016, which provided, inter alia, reduction of the corporate tax rate by 1.5% to a rate of 25% as from 2016.

The deferred tax balances as at June 30, 2016 were calculated according to the new tax rate specified in the Law for the Amendment of the Income Tax Ordinance, at the tax rate expected to apply on the date of reversal. The effect of the change on the financial statements as at June 30, 2016 is reflected in a decrease in the deferred tax liabilities in the amount of USD 12 thousand. The effect of the change in the deferred tax liabilities has been recognized against deferred tax income in the amount of USD 11 thousand and against other comprehensive income in the amount of USD 1 thousand.

Note 5 - Financial Instruments

Fair value

The carrying amounts of financial assets and liabilities, including cash and cash equivalents, trade receivables, other receivables, deposits, trade payables, other payables, derivative instruments and liabilities to bank and others are the same or proximate to their fair value.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical instruments.
- Level 2: inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3: inputs that are not based on observable market data (unobservable inputs).

	June 30, 2016	
	Level 3	**Total**
	(Unaudited)	**(Unaudited)**
	$ thousands	**$ thousands**
Contingent consideration liability	**88**	**88**

	June 30, 2015	
	Level 3	**Total**
	(Unaudited)	**(Unaudited)**
	$ thousands	**$ thousands**
Contingent consideration liability	216	216

Note 5 - Financial Instruments (cont'd)

Fair value hierarchy (cont'd)

	December 31, 2015	
	Level 3	Total
	(Audited)	(Audited)
	$ thousands	$ thousands
Contingent consideration liability	240	240

As at June 30, 2016 the fair value of the contingent consideration liability has decreased to USD 88 thousand, following a payment of USD 159 thousand referring to year 2015. On the other hand, an increase has been recognized in the statement of income as follows:

1. An amount of USD 1 thousand for the six-month period ended June 30, 2016, that reflects the changes related to the expected annual sales turnover increase has been recognized as other expenses.

2. An amount of USD 6 thousand and USD 3 thousand for the six-month and three-month periods ended June 30, 2016, respectively, that reflects the changes related to the time value of the liability has been recognized as financing expenses.