



# **Payton Planar Magnetics Ltd.**

## **Annual Report 2017**

**Financial Statements as at December 31, 2017**

---

**Contents**

	<u>Page</u>
Board of Directors Report	2
Auditors' Report	14
Consolidated Financial Statements:	
Statements of Financial Position	17
Statements of Profit or Loss and Other Comprehensive Income	19
Statements of Changes in Equity	20
Statements of Cash Flows	21
Notes to the Financial Statements	22

## The Board of Directors' Report<sup>1</sup> 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 year ended on December 31, 2017

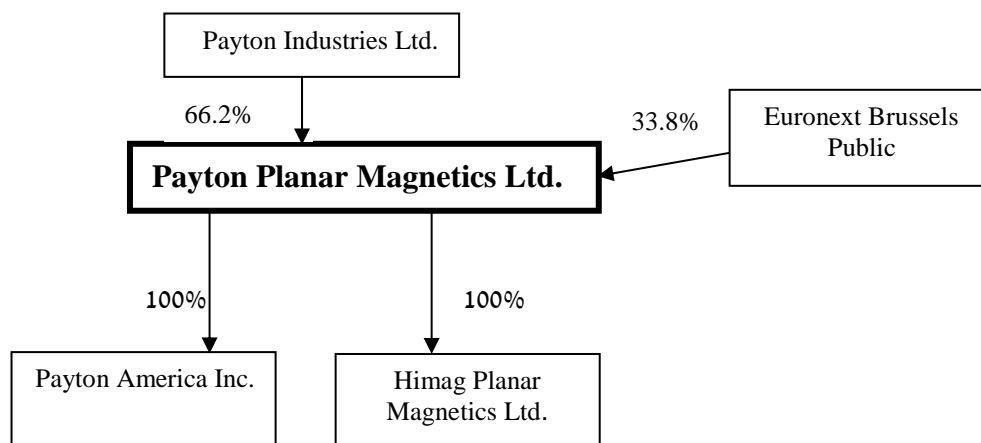
*Notice: This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current 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") and Himag Planar Magnetics Ltd.



#### B. The Group's main fields of activity and changes that occurred in the period from January to December 2017

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.

During 2017, the Group continued its regular course of business, and no material changes in its business activity have occurred.

---

<sup>1</sup> The financial statements as at December 31, 2017 form an integral part thereof.

**On March 26, 2018** - the Company's Board of Directors decided to pay the shareholders a dividend for the financial year 2017, at the amount of USD 3,092 thousands (USD 0.175 per share, to be paid on May 24, 2018). The Board shall recommend the General Meeting to approve the said amount as final.

### C. Sales

The Group main customer base is related to the telecom, automotive and power electronic market. Additional markets the Group aims are Industrial, medical and Hi-Reliability ("Hi-Rel") markets. During 2017, the Company keeps operating to expand its activity in: UK, North America, Japan, China and S. Korea.

Sales for the year ended December 31, 2017 amounted to USD 33,043 thousand compared with USD 32,354 thousand for the year ended December 31, 2016.

Revenues for the year ended 2017 consisted of recurring sales to existing customers and sales to new ones.

The Sales were generated primarily from large telecom companies, automotive companies, industrial companies and Hi-Rel applications manufacturers.

### D. Principal customers

The consolidated sales revenues include sales to major customers (which make up in excess of 10% of the sales of the Group).

	<b>For the year ended December 31</b>	<b>For the year ended December 31</b>
	<b>2017</b>	<b>2016</b>
Customer A	18%	18%
Customer B	*	11%
Customer C	10%	*

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

### E. Global Environment and External factors effect on the Group's activity

The Group expects the market trend for 2018 to reflect the increase in the global economy and increasing demands. In order to successfully follow its potential, Payton will aim its efforts to increase its production capabilities as well as automating production lines.

The Group will continue its ongoing searching of new markets as well as other business opportunities in order to keep expanding its core business.

Global fluctuations also affect the Group performances when it comes to currency exposure. Both, in Israel and in the UK, there are currency fluctuations in the exchange rates of the main currency (USD) vis-à-vis the NIS and the GBP.

Company Management is closely monitoring all above-mentioned market fluctuations and will continue to track their developments and effects. In addition, Company's Management is taking necessary actions in order to cope with the situation, to the greatest extent possible.

As a result of the Company's conservative cash policy, management estimates that the Group is financially strong and no liquidity problems are expected in the foreseeable future.

## **F. Marketing**

The Group participates in most leading electronic exhibitions. During 2017 the Group participated in

- APEC in Tampa Florida, USA (March, 2017), PCIM Europe 2017 Exhibition, Nuremberg, Germany (May, 2017), New-Tech Exhibition, Tel-Aviv, Israel (May, 2017) and others.
- In addition, during 2017, the Company initiated several seminars and conferences in the USA.

The Company strategy, which enables fulfilling the mission of gaining worldwide recognition and market share growth, is:

- Targeting world leaders in their fields. Having these leaders as our customers is convincing other second tier companies to adopt the Planar Technology.
- Focusing on Automotive (EV/HEV), medical and Hi-Rel segments in addition to the Telecom and power electronic markets.
- Use representatives network as sales channels.
- Expanding our activity in China, Japan, North America and S. Korea markets.
- Deepening activity with existing customers.
- Maintaining the wide presence and global recognition.

## **G. Manufacturing**

The group intends to expand and diversify its manufacturing capacity and capabilities, through manufacturing partners in the Far East. This activity objective is to increase flexible production capacity, to enable mass production quantities, lower products costs and increase competitiveness.

## **H. Competition**

In the recent years there has been an increasing interest of magnetics manufacturers to get into the Planar field. We can note that there are more and more companies that are trying to design and manufacture the planar components. However, the Company believes in its technology advantage and capabilities and estimates it could generally benefit from an increasing competition in the market due to greater exposure of the technology.

The Company cannot estimate its future market share. The following companies are considered as its potential competitors: Pulse and Coilcraft - from the U.S.A. and Premo - from Spain.

## **I. Order Backlog**

As at December 31, 2017 this backlog amounted to USD 16,796 thousand, and as of March 12, 2018 to USD 21,861 thousand (December 31, 2016 - USD 10,681 thousand). The backlog is composed of the Company and its two fully owned subsidiaries firm orders.

Management estimates that most of the backlog as of 31.12.17 will be supplied until the end of December 2018.

It is noted that the above statement is a forward-looking statement as defined above.

## **J. Human Resources**

A factor of importance to the Company's success is its ability to attract, train and retain highly-skilled technical, and more specifically, qualified electronics engineers with experience in high frequency magnetics and with a comprehensive understanding of high frequency magnetics, managerial, sales and marketing personnel. Competition for such personnel is intense. The Company constantly betterments its personnel and has so far succeeded in recruiting the appropriate personnel as required. This personnel is important in maintaining the pace in research, design and technical customer support. The Company is confident however, that the challenges inherent in its operations will satisfy its Company's future recruitment needs. By the end of 2017, the Group employed 196 people. The Company retains employment contracts with most of its key employees and is of the opinion that relations with its employees are satisfactory.

## **K. Quality Control**

Payton Group has the ISO9001:2015 certification for its quality system. It has UL recognition for the use of several Electrical Insulation Systems classes B, F and H in its products, also has recognition of the construction of a family of magnetic components as complying with the requirements of UL and IEC 60950 standards of safety. Payton is authorized by an accredited testing agency to apply the CE mark to many of its commercial transformers.

Payton also meets recognized international safety standards and conforms to MIL.T, CSA VDE and other standards. The Company is certified with ISO14001:2015 (Environmental standard). Payton is a Lead Free company as required by the 2002/95/EC RoHS directive.

The Company is certified with two important International Quality Management Standards: for Automotive - IATF 16949:2016 and for Space & Avionic - AS9100 (at Payton America only).

## **L. Objective and Business Strategy**

Since its incorporation, Payton has provided innovative and affordable Planar Magnetic solutions to the Power Electronic Industry.

By doing so, it has become the undisputable worldwide market leader in the Planar Magnetics Technology, with a blue-chip customer base of leading technology-driven OEM's.

Payton plans to maintain its lead and continue to facilitate the transition of the Magnetics market to the Planar Technology by:

1. Maintaining business efficiency and operational efficiency and constant search for cost saving solutions.
2. Maintaining and strengthening its current blue-chip customer base. This will enable Payton to build a track record as a reliable high-volume Planar component supplier to leading OEM's.
3. Selectively developing additional key strategic customers, especially in China, Japan, North America, India, Korea and UK in order to further propagate Payton Planar unique technology.
4. Aiming and focusing on new high growth segments such as Automotive (EV/HEV) in addition to the present Telecom market, Hi-Rel, Avionics, Space and medical applications.
5. Continuing to educate the Power Electronics industry about Planar technology.
6. Continuing to develop its mass production expertise and capacities to a level that will enable Payton to address the large price-sensitive segments and mass production quantities segments of the global Magnetics market.
7. Payton is constantly looking for business opportunities to expand its core business with synergetic product lines.

It is noted that the above statement is a forward-looking statement as defined above.

## M. Coming year outlook

In the coming year (2018) Payton plans to continue improving efficiency as well as increasing production capabilities and production automation.

During 2018, the Group plans to continue its regular course of business, enlarging its market share and maximize business challenges to the greatest possible extent.

In addition, the group will continue its ongoing search for business and M&A opportunities, synergetic to its core business, in order to expand its activity.

It is noted that the above statement is a forward-looking statement as defined above.

## N. Risk Factors

	Major Impact	Medium Impact	Small Impact
<b>Macro Risks</b>		<ul style="list-style-type: none"><li>▪ Chinese currency evaluation against the USD increases cost of goods sold. In addition, the increase of the minimum wages in China may increase the labor costs.</li><li>▪ Evaluation/Devaluation of the local currencies, NIS and GBP reflects an increase/decrease in labor costs and other operating costs.</li></ul>	<ul style="list-style-type: none"><li>▪ Currency exposure during credit term period with regards to invoices issued in local currency.</li><li>▪ Currency exposure against the Group's functional currency (USD), in relation to sales priced in other currencies, mainly, GBP and Euro.</li></ul>
<b>Market Risks</b>		<ul style="list-style-type: none"><li>▪ Metals prices fluctuations especially: Copper, Aluminum, Tin and Silver, which are part of the transformers bill of materials.</li></ul>	
<b>Specific Risks</b>		<ul style="list-style-type: none"><li>▪ Manufacturing partners dependency.</li></ul>	

## O. Current Shareholders position

Shareholder name	Number of shares	Percentage of the outstanding shares	Comments
Payton Industries Ltd.	11,694,381	66.2%	Israeli company traded in the Tel Aviv stock exchange.
Public	5,976,394	33.8%	Listed on the EuroNext since June 1998.
Total	17,670,775	100.0%	Total outstanding shares.

## 2. **Financial position**

### A. **Statement of Financial Position as at December 31, 2017**

*Cash and cash equivalents and Short-term Deposits* - these items amounted to a total of USD 24,448 thousand as at December 31, 2017 compared to USD 20,201 thousand as at December 31, 2016.

The Company profitability during year 2017 attributed the increase in its solid cash position, which covered back the cash paid out as dividend, at the amount of USD 3,092 thousand, on July, 2017.

*Trade accounts receivable* - amounted to USD 6,545 thousand as at December 31, 2017 compared to USD 7,793 thousand as at December 31, 2016. The decrease in this item is mostly explained by sales decrease in the period near the reports date as well as from decrease in customer's average credit terms period.

*Trade payables* - amounted to USD 3,092 thousand as at December 31, 2017 compared to USD 3,738 thousand as at December 31, 2016. The decrease in this item is in line with the decrease in purchases near the reports date.

*Current tax liabilities* - amounted to USD 926 thousand as at December 31, 2017 compared to USD 676 thousand as at December 31, 2016. The increase in this item resulted mainly due to the increase in the Company's profitability.

### B. **Interest rate, Currency and Market exposure - Data and Policy**

#### *Interest rate exposure*

The Group's interest rate exposure relates mainly to its balance of cash equivalents and short-term bank deposits. These balances are mostly held in USD bearing interest rates given by banks (interest rate - about 2%), which changes from time to time.

#### *Data on linkage terms*

The financial statements of the Company reflect the functional currency of the Company, which is the USD.

Most of the Group's sales (91%) in the reported periods were in USD or were linked to the USD. Approximately 4% of the Group's sales in 2017 were in Euro, 2% were in NIS, and about 3% were in GBP.

During 2017, approximately 97% of the costs of raw material and finished goods purchased by the Group were in USD or were linked to the USD.

During 2017, approximately 80% of the Group's salaries were in New Israeli Shekel ("NIS") and about 9% were in GBP.

#### *Currency exposure risks*

Since most of the Group's sales and purchases were in USD or linked to the USD, the Group's gross profit was exposed to the changes in exchange rates of the USD in relation to the Euro, the GBP and to the local New Israeli Shekel ("NIS") mostly with regards to labor costs and other operating costs (see also Data on linkage terms, above).



The Group is exposed to erosion of the USD in relation to the NIS and the GBP. Most of the Group's salaries and other operating costs are fixed in the local currencies. Fluctuation of the U.S. Dollar with relation to local currencies (NIS & GBP) has an influence on the operating results of the Company.

The Company is subcontracting in China. Devaluation of the U.S. Dollar with relation to the Chinese currency has an indirect effect on the Group's cost of goods sold.

***Market risks***

During 2017 the Company slightly used derivatives as a tool for hedging, especially in order to hedge mostly its labor costs paid in NIS. With regards to all other operating costs, there is no need to use derivatives, since hedging is being kept inherently as part of the operational activity.

## C. Operating results

### Summary of Consolidated Statements of Income US Dollars in thousands

#### Payton Planar Magnetics Ltd.

#### Consolidated Comprehensive Income Statements

	<u>Total 2017</u>	<u>Total 2016</u>	<u>Half year 7-12/17</u>	<u>Half year 1-6/17</u>
Sales revenues	33,043	32,354	18,673	14,370
Cost of sales	<u>20,064</u>	<u>20,279</u>	<u>11,290</u>	<u>8,774</u>
<i>Gross profit</i>	<i>12,979</i>	<i>12,075</i>	<i>7,383</i>	<i>5,596</i>
Development costs	(1,240)	(1,012)	(627)	(613)
Selling & marketing expenses	(2,269)	(2,254)	(1,113)	(1,156)
General & administrative expenses	(2,948)	(2,959)	(1,456)	(1,492)
Other income (expenses), net	<u>4</u>	<u>(633)</u>	<u>4</u>	<u>-</u>
<b><i>Operating income</i></b>	<b><i>6,526</i></b>	<b><i>5,217</i></b>	<b><i>4,191</i></b>	<b><i>2,335</i></b>
Finance income, net	<u>313</u>	<u>143</u>	<u>167</u>	<u>146</u>
<b><i>Profit before income taxes</i></b>	<b><i>6,839</i></b>	<b><i>5,360</i></b>	<b><i>4,358</i></b>	<b><i>2,481</i></b>
Income taxes	(1,295)	(1,107)	(763)	(532)
<b><i>Net profit for the period</i></b>	<b><u><u>5,544</u></u></b>	<b><u><u>4,253</u></u></b>	<b><u><u>3,595</u></u></b>	<b><u><u>1,949</u></u></b>
<b><i>Other comprehensive (loss) income items that will not be transferred to profit &amp; loss</i></b>				
Remeasurement of defined benefit plan, net of taxes	<u>(37)</u>	<u>13</u>	<u>(37)</u>	<u>-</u>
Total other comprehensive (loss) income	<u>(37)</u>	<u>13</u>	<u>(37)</u>	<u>-</u>
<b><i>Total comprehensive income for the period</i></b>	<b><u><u>5,507</u></u></b>	<b><u><u>4,266</u></u></b>	<b><u><u>3,558</u></u></b>	<b><u><u>1,949</u></u></b>

**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 the local currencies. Revaluation of the local currencies drives to an increase or decrease in labor costs and other operating costs, thus, affects the operating results of the Company.

**Sales revenues** - The Group's sales revenues for year 2017 were USD 33,043 thousand compared with USD 32,354 thousand in year 2016. During 2017 the Group maintained its sales level.

**Gross profit** - The Group's gross results for the year ended December 31, 2017 were USD 12,979 thousand (39%), compared with USD 12,075 thousand (37%), in the year ended December 31, 2016. The Group improved its gross profit margin together with maintaining its sales level. The gross profit is influenced by the products mix and the production locations of each year 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 year ended December 31, 2017 were USD 1,240 thousand compared with USD 1,012 thousand in the year ended December 31, 2016. The increase is mainly explained by an increase in development team labor costs also as result of local currency revaluation.

**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 year ended December 31, 2017 amounted to USD 2,269 thousand compared with USD 2,254 thousand in the year ended December 31, 2016.

**General & Administrative expenses** - The Group's General & Administrative expenses for the year ended December 31, 2017 amounted to USD 2,948 thousand compared with USD 2,959 thousand in the year ended December 31, 2016.

**Other income (expenses), net** - The Group's other income (expenses) for the year ended December 31, 2017 amounted to USD 4 thousand compared with expenses of USD 633 thousand in the year ended December 31, 2016. During 2016 the UK subsidiary recorded an impairment of goodwill at the amount of USD 709 thousand, in addition to, an income at the amount of USD 69 thousand resulting from a decrease in contingent consideration (originated from the purchase of Himag Solutions business activity).

**Information regarding - Transactions with related parties** (pursuant to note 16 G to the Consolidated Financial Statements as at December 31, 2017)

Compensation and benefits to key management personnel and interested parties (including directors) that are employed by the Group:

	Year ended December 31				December 31	
	2017		2016		2017	2016
	Number of People	Amount \$ thousands	Number of People	Amount \$ thousands	Outstanding balance \$ thousands	
Short-term employee benefits *		803		697	164	149
Post-employment benefits		98		67	64	73
	5	901	5	764	228	222

(\*) Including full year compensation paid to a related party that starting November 1, 2017 providing his services through his fully owned company - see Note 13B.

Compensation to key management personnel (including directors) that are not employed by the Group:

	Year ended December 31				December 31	
	2017		2016		2017	2016
	Number of People	Amount \$ thousands	Number of People	Amount \$ thousands	Outstanding balance \$ thousands	
Total compensation to directors not employed by the Group	<b>3</b>	<b>36</b>	<b>4</b>	<b>33</b>	<b>8</b>	<b>9</b>
Total compensation to key management personnel not employed by the Group *	<b>1</b>	<b>758</b>	<b>1</b>	<b>660</b>	<b>288</b>	<b>230</b>
Accounts receivable- The Parent Company	-	-	-	-	<b>105</b>	<b>111</b>

\* Management fees and related benefits to Wichita Ltd. (see Note 13A) include an amount of USD 149 thousand (year ended December 31, 2016: USD 135 thousand) recorded as selling and marketing expenses.

Inter-company transactions between the Company and its two fully owned subsidiaries (Payton America Inc. and Himag Planar Magnetics Ltd.) include, inter alia, the following: Buy&Resale, engineering support, marketing, administrative and management services. All the inter-company transactions are being eliminated within consolidated financial statements.

### 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		
	December 31, 2017	December 31, 2016
Current ratio <sup>2</sup>	5.89	5.15
Quick ratio <sup>3</sup>	5.27	4.57

#### B. Operating activities

Cash flows generated from operating activities for the year ended December 31, 2017 amounted USD 7,813 thousand, compared with the cash flows generated from operating activities of USD 4,558 thousand for the year ended December 31, 2016. The increase in the cash flows from operating activities resulted mostly from the increase in the profit for the year, decrease in trade accounts receivables as well as from other changes in assets and liabilities.

<sup>2</sup> Current ratio calculation – Current assets / Current liabilities

<sup>3</sup> Quick ratio calculation – (Current assets – Inventory) / Current liabilities

### **C. Investing activities**

Cash flows used for investing activities in the year ended December 31, 2017 amounted USD 7,798 thousand compared with cash flows generated from investing activities of USD 863 thousand in the year ended December 31, 2016. During year 2017 the cash flows were mostly invested in short term bank deposits.

### **D. Financing activities**

Cash flows used for financing activities in the year ended December 31, 2017 amounted USD 3,116 thousand compared with cash flows used for financing activities of USD 3,251 thousand in the year ended December 31, 2016. Dividend at the amount of USD 3,092 thousand (USD 0.175 per share) was paid on July, 2017, and the same dividend amount was paid also on January, 2016.

## **4. Financing sources**

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

## **5. Subsequent Events**

On March 26, 2018, the Company's Board of Directors decided to pay the shareholders a dividend for the financial year 2017 at the amount of USD 3,092 thousand (USD 0.175 per share, to be paid on May 24, 2018). The dividend is submitted to one single tax of 15%.

## **6. 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 Group's salaries and other operating costs are fixed in local currencies; therefore, the operating results 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.

See also paragraph 1N above (Risk Factors).

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.

**7. Statement by senior management in accordance with article 12, § 2 (3°) of the Royal Decree per 14.11.2007**

Pursuant to article 13 § 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 December 31, 2017 are drawn up in accordance with IFRS-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 financial year, their impact on the financial statements, the main risk factors and uncertainties, as well as the main transactions with related parties and their possible impact on the 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 express its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

**Ness-Ziona, March 26, 2018.**

---

**David Yativ**  
**Chairman of the Board**  
**of Directors**

---

**Doron Yativ**  
**Director and C.E.O.**



Somekh Chaikin  
KPMG Millennium Tower  
17 Ha'arba'a Street, PO Box 609  
Tel Aviv 61006, Israel  
+972 3 684 8000

## **Independent Auditors' Report**

### **To the Shareholders of Payton Planar Magnetics Ltd.**

#### ***Opinion***

We have audited the consolidated financial statements of Payton Planar Magnetics Ltd. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2017, the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

#### ***Basis for Opinion***

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Israel, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### ***Key Audit Matters***

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### **Revenue recognition**

Revenue is a key performance indicator and of importance to the financial statements users. The Company has issued clear guidelines to its executives not to take any account of the pressure to meet expectations when preparing the financial statements. Nevertheless, the pressure to report on high revenues to the investors, form an inherent risk that revenue at year-end may be recognized prematurely.

With respect to this audit matter, our audit procedures included extended sampling of transactions recorded close to the end of the year and checking that such transactions had met all criteria for revenue recognition in 2017, and therefore were included in the appropriate period. Such sampling included obtaining evidence from external sources as to the delivery of the products before year-end, based on the various shipping terms. We also checked if any credit notes were issued in the subsequent period for revenues that were recognized in 2017, in order to obtain evidence of proper revenue recognition in 2017.

### ***Other Information***

Management is responsible for the other information. The other information comprises the Board of Directors' Report on Corporate Affairs.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### ***Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:



- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Ehud Lev.

Somekh Chaikin  
 Certified Public Accountants (Isr.)  
 (A member of KPMG International)

March 26, 2018

**Consolidated Statements of Financial Position as at December 31**

	Note	2017 \$ thousands	2016 \$ thousands
<b>Current assets</b>			
Cash and cash equivalents	4	5,089	8,150
Short-term deposits	5	19,359	12,051
Trade accounts receivable	6	6,545	7,793
Other accounts receivable	6	406	554
Inventory	7	3,647	3,668
<b>Total current assets</b>		<b>35,046</b>	<b>32,216</b>
<b>Non-current assets</b>			
Fixed assets	8	11,641	11,985
Intangible assets	9	22	44
Deferred taxes	17	3	39
<b>Total non-current assets</b>		<b>11,666</b>	<b>12,068</b>
<b>Total assets</b>		<b>46,712</b>	<b>44,284</b>

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

**Consolidated Statements of Financial Position as at December 31 (cont'd)**

	Note	2017 \$ thousands	2016 \$ thousands
<b>Liabilities and equity</b>			
<b>Current liabilities</b>			
Trade payables		3,092	3,738
Other payables	10	1,478	1,425
Current tax liability		926	676
Employee benefits	11	457	412
<b>Total current liabilities</b>		<b>5,953</b>	<b>6,251</b>
<b>Non-current liabilities</b>			
Employee benefits	11	514	359
Deferred tax liabilities	17	767	611
<b>Total non-current liabilities</b>		<b>1,281</b>	<b>970</b>
<b>Total liabilities</b>		<b>7,234</b>	<b>7,221</b>
<b>Equity</b>			
Share capital	15	4,836	4,836
Share premium		8,993	8,993
Retained earnings		25,649	23,234
<b>Total equity</b>		<b>39,478</b>	<b>37,063</b>
<b>Total liabilities and equity</b>		<b>46,712</b>	<b>44,284</b>

\_\_\_\_\_  
David Yativ  
Chairman of the Board of Directors

\_\_\_\_\_  
Doron Yativ  
Chief Executive Officer

\_\_\_\_\_  
Michal Lichtenstein  
V.P. Finance & CFO

Date of approval of the financial statements: March 26, 2018

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

**Consolidated Statements of Profit or Loss and Other Comprehensive Income for the year ended December 31**

	Note	2017 \$ thousands	2016 \$ thousands
Revenues	16A	33,043	32,354
Cost of sales	16B	(20,064)	(20,279)
<b>Gross profit</b>		<b>12,979</b>	12,075
Development costs		(1,240)	(1,012)
Selling and marketing expenses	16C	(2,269)	(2,254)
General and administrative expenses	16D	(2,948)	(2,959)
Other income (expenses), net	16E	4	(633)
<b>Operating profit</b>		<b>6,526</b>	5,217
Finance income	16F	357	190
Finance expenses	16F	(44)	(47)
Finance income, net		313	143
<b>Profit before income taxes</b>		<b>6,839</b>	5,360
Income taxes	17	(1,295)	(1,107)
<b>Profit for the year</b>		<b>5,544</b>	4,253
<b>Other comprehensive (loss) income items that will not be transferred to profit and loss</b>			
Remeasurement of defined benefit plan, net of taxes	11	(37)	13
<b>Total other comprehensive (loss) income</b>		<b>(37)</b>	13
<b>Total comprehensive income for the year</b>		<b>5,507</b>	4,266
<b>Basic earnings per share (in \$)</b>	18	<b>0.31</b>	0.24

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

**Consolidated Statements of Changes in Equity for the year ended December 31**

	Share capital		Share premium \$ thousands	Retained earnings \$ thousands	Total \$ thousands
	Number of shares	\$ thousands			
<b>Balance at January 1, 2016</b>	17,670,775	4,836	8,993	18,968	32,797
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	4,253	4,253
Other comprehensive income	-	-	-	13	13
Total comprehensive income for the year	-	-	-	4,266	4,266
<b>Balance at December 31, 2016</b>	17,670,775	4,836	8,993	23,234	37,063
<b>Total comprehensive income for the year</b>					
Profit for the year	-	-	-	5,544	5,544
Other comprehensive loss	-	-	-	(37)	(37)
Total comprehensive income for the year	-	-	-	5,507	5,507
<b>Transactions with owners, recognized directly in equity</b>					
Dividend to owners	-	-	-	(3,092)	(3,092)
<b>Balance at December 31, 2017</b>	<b>17,670,775</b>	<b>4,836</b>	<b>8,993</b>	<b>25,649</b>	<b>39,478</b>

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

**Consolidated Statements of Cash Flows for the year ended December 31**

	Note	2017 \$ thousands	2016 \$ thousands
<b>Operating activities</b>			
Profit for the year		5,544	4,253
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation and amortization	8, 9	931	1,011
Income taxes	17	1,295	1,107
Capital gain on sale of fixed assets	16E	(4)	(7)
Changes in the fair value of contingent consideration	16E	-	(69)
Impairment loss on goodwill	9, 16E	-	709
Finance income, net	16F	(301)	(105)
Increase in employee benefits	11	154	115
Decrease (increase) in trade accounts receivable	6	1,248	(3,479)
Decrease (increase) in other accounts receivable	6	150	(237)
Decrease in inventory	7	21	481
(Decrease) increase in trade payables		(663)	753
Increase in other payables	10	77	227
Interest received	16F	214	130
Interest paid	16F	(7)	-
Tax paid	17	(846)	(529)
Tax received	17	-	198
<b>Cash flows generated from operating activities</b>		<b>7,813</b>	<b>4,558</b>
<b>Investing activities</b>			
(Investment in) proceeds from deposits, net	5	(7,254)	1,478
Investment in fixed assets	8	(555)	(651)
Proceeds from sale of fixed assets	8	11	36
<b>Cash flows (used for) generated from investing activities</b>		<b>(7,798)</b>	<b>863</b>
<b>Financing activities</b>			
Payment of contingent consideration	10	(24)	(159)
Dividend paid	15	(3,092)	(3,092)
<b>Cash flows used for financing activities</b>		<b>(3,116)</b>	<b>(3,251)</b>
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(3,101)</b>	<b>2,170</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>8,150</b>	<b>6,004</b>
<b>Effect of exchange rate fluctuations on cash and cash equivalents</b>		<b>40</b>	<b>(24)</b>
<b>Cash and cash equivalents at end of the year</b>		<b>5,089</b>	<b>8,150</b>

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

## Notes to the Consolidated Financial Statements

---

### Note 1 - General

#### A. Reporting entity

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”) and its ultimate controlling shareholder is Mr. David Yativ. The securities of the Company are registered for trade on the Euronext stock exchange in Brussels.

The consolidated financial statements of the Group as at and for the year ended December 31, 2017 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group develops, manufactures and markets planar and conventional transformers and operates abroad through its subsidiaries and distributors.

#### B. Definitions

##### In these financial statements –

1. **The Company** – Payton Planar Magnetics Ltd.
2. **The Group** – The Company and its subsidiaries.
3. **Payton Industries Ltd.** – Parent company, traded on the Tel Aviv Stock Exchange.
4. **Subsidiaries** – Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.
5. **Related party** – Within its meaning in IAS 24 (2009), “Related Party Disclosures”.
6. **Israeli CPI** – The Consumer Price Index as published by the Central Bureau of Statistics in Israel.
7. **NIS** – The Israeli currency – New Israeli Shekel.
8. **\$** – U.S. Dollar.
9. **GBP** – Great Britain Pound.

**Notes to the Consolidated Financial Statements**

---

**Note 2 - Basis of Preparation****A. Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and its interpretations adopted by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 26, 2018.

**B. Functional and presentation currency**

These consolidated financial statements are presented in U.S. dollars, which is the Company’s functional currency, and have been rounded to the nearest thousand. The U.S. dollar is the currency that represents the principal economic environment in which the Company operates.

**C. Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

- \* Financial instruments, including derivatives, measured at fair value through profit or loss;
- \* Deferred tax assets and liabilities;
- \* Employee benefit assets and liabilities

For further information regarding the measurement of these assets and liabilities see Note 3 regarding significant accounting policies.

**D. Operating cycle**

The operating cycle of the Group is one year. Thus, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year.

**E. Use of estimates and judgments**

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

The preparation of accounting estimates used in the preparation of the Group’s financial statements requires management of the Company to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.



## Notes to the Consolidated Financial Statements

---

### Note 2 - Basis of Preparation (cont'd)

#### E. Use of estimates and judgments (cont'd)

##### Determination of fair value

Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities.

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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).

Further information about the assumptions that were used to determine fair value is included in Note 14, on financial instruments.

### Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

#### A. Basis of consolidation

##### 1. Business combinations

Business combinations, including business combinations under common control are accounted for using the acquisition method.

The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed.

On the acquisition date, the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree and the liabilities incurred by the acquirer to the previous owners of the acquiree. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as legal and valuation consulting fees are expensed in the period the services are received.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****A. Basis of consolidation (cont'd)****2. Subsidiaries**

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

**3. Transactions eliminated on consolidation**

Intra-group balances and transactions, and any unrealized income or expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

**B. Foreign currency transactions**

Transactions in foreign currencies are translated to the functional currency of the Group at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign currency differences arising on translation are recognized in profit or loss.

**C. Financial instruments****1. Non-derivative financial assets****Initial recognition of financial assets**

The Group initially recognizes loans and receivables and deposits on the date that they are created. All other financial assets acquired in a regular way purchase, are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument, meaning on the date the Group undertook to purchase or sell the asset. Non-derivative financial instruments comprise trade and other receivables, deposits and cash and cash equivalents.

**Derecognition of financial assets**

Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Regular way sales of financial assets are recognized on the trade date, meaning on the date the Company undertook to sell the asset.

See 2 hereunder regarding the offset of financial assets and financial liabilities.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****C. Financial instruments (cont'd)****1. Non-derivative financial assets (cont'd)**Classification of financial assets into categories and the accounting treatment of each category

The Group classifies its financial assets according to the following categories:

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, trade and other receivables.

Cash and cash equivalents comprise cash balances available for immediate use and call deposits. Cash equivalents comprise short-term highly liquid investments (with original maturities of three months or less) that are readily convertible into known amounts of cash and are exposed to insignificant risks of change in value.

**2. Non-derivative financial liabilities**

The Group has the following non-derivative financial liabilities: trade and other payables.

Initial recognition of financial liabilities

Financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are recognized initially at fair value less any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

Derecognition of financial liabilities

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Offset of financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****C. Financial instruments (cont'd)****3. Derivative financial instruments***Economic hedges*

Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities denominated in foreign currencies. Change in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

**4. Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognized as a deduction from equity.

**D. Fixed assets****1. Recognition and measurement**

Fixed asset items are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When major parts of a fixed asset item have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

**2. Subsequent costs**

The cost of replacing part of a fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Group and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

**3. Depreciation**

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, less its residual value.

An asset is depreciated from the date it is ready for use, meaning the date it reaches the location and condition required for it to operate in the manner intended by management.

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets under finance lease agreements including lands are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

## Notes to the Consolidated Financial Statements

---

### Note 3 - Significant Accounting Policies (cont'd)

#### D. Fixed assets (cont'd)

##### 3. Depreciation (cont'd)

The estimated useful lives for the current and comparative periods are as follows:

Buildings	7-50 years	(mainly 50 years)
Machinery and equipment	3-7 years	(mainly 7 years)
Motor vehicles	7 years	
Computers	3-7 years	(mainly 3 years)
Office equipment	3-14 years	(mainly 14 years)
Land under finance leases	70 years	

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

#### E. Intangible assets

##### 1. Goodwill

Goodwill that arises upon a business acquisition is presented as part of intangible assets. For information on measurement of goodwill at initial recognition, see Paragraph A(1) of this note.

Goodwill, having an indefinite useful life, is not systematically amortized but is tested for impairment at least once a year.

In subsequent periods, goodwill is measured at cost less accumulated impairment losses.

##### 2. Other intangible assets

The intangible assets that were acquired by the Group, which have definite useful lives, are measured at cost less accumulated amortization.

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in each asset.

The estimated useful lives for the current and comparative periods are as follows:

- Production files 5 years
- Brand name 4 years
- Non-competition agreement 5 years

Amortization methods, useful lives and residual values are reviewed at the end of each reporting year and adjusted if appropriate.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****F. Inventories**

Inventories are measured at the lower of cost and net realizable value. Inventory is based on the first-in first-out (FIFO) principle and its cost includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

**G. Impairment****1. Non-derivative financial assets**

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is recognized in profit or loss and reflected in a provision for loss against receivables.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in a provision for loss against the balance of the financial asset measured at amortized cost.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost, the reversal is recognized in profit or loss.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****G. Impairment (cont'd)****2. Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the assessments of market participants regarding the time value of money and the risks specific to the asset or cash-generating unit, for which the estimated future cash flows from the asset or cash-generating unit were not adjusted.

Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from the synergies of the combination.

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. As regards cash-generating units that include goodwill, an impairment loss is recognized when the carrying amount of the cash-generating unit, after including the balance of goodwill, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, for which impairment losses were recognized in prior periods, an assessment is performed at each reporting date for any indications that these losses have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****H. Employee benefits****1. Post-employment benefits**

The Group has a number of post-employment benefit plans. The plans are usually financed by deposits with insurance companies or with funds managed by a trustee, and they are classified as defined contribution plans and as defined benefit plans.

**(a) Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees.

**(b) Defined benefit plans**

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset). The discount rate is the yield at the reporting date on high quality NIS-denominated corporate debentures, that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurements are recognized immediately directly in retained earnings through other comprehensive income.

Net interest costs on a net defined obligation are presented under salaries expenses.

The Group has executive insurance policies that were issued before 2004 according to which the profit in real terms accumulated on the severance pay component will be paid to the employees upon their retirement. In respect of such policies, plan assets include both the balance of the severance pay component and the balance of the profit in real terms (if any) on the severance pay deposits that accumulated until the reporting date, and are presented at fair value.



**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****H. Employee benefits (cont'd)****2. Short term benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided or upon the actual absence of the employee when the benefit is not accumulated (such as maternity leave).

A liability is recognized for the amount expected to be paid under short term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Group expects the benefits to be wholly settled.

**I. Revenue**

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable. When the credit period is short and constitutes the accepted credit in the industry, the future consideration is not discounted.

Revenue is recognized when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfer of risks and rewards occurs when the goods are transferred to the customer or to its forwarder.

**J. Development costs**

Development costs are mainly incurred to customize products for individual contracts. These development costs are expensed as incurred.

**K. Leases**

Lease of a land from the Israel Lands Administration where the Group assumes substantially all the risks and rewards of ownership is classified as finance leases. Upon initial recognition, the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future dates of renewing the lease agreement.

Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****L. Financing income and expenses**

Financing income comprises interest income on funds invested and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognized as it accrues, using the effective interest method.

Financing expenses comprise changes in the fair value of contingent consideration from a business combination due to the passage of time, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets (other than losses on trade receivables that are presented under general and administrative expenses).

In the statement of cash flows, interest paid and interest received are presented as part of cash flows from operating activities.

Foreign currency gains and losses are reported on a net basis as either financing income or financing expenses depending on whether foreign currency movements are in a net gain or net loss position.

**M. Income tax**

Income tax comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss, or are recognized directly in other comprehensive income to the extent they relate to items recognized directly in other comprehensive income.

*Current taxes*

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

*Offset of current tax assets and liabilities*

Current tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and there is intent to settle current tax liabilities and assets on a net basis or the tax assets and liabilities will be realized simultaneously.

*Uncertain tax positions*

A provision for uncertain tax positions, including additional tax and interest expenses, is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

*Deferred taxes*

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill and differences relating to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future and to the extent the Group controls the date of reversal.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

**Notes to the Consolidated Financial Statements**

---

**Note 3 - Significant Accounting Policies (cont'd)****M. Income tax (cont'd)**

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets that were not recognized are reevaluated at each reporting date and recognized if it has become probable that future taxable profits will be available against which they can be utilized.

*Offset of deferred tax assets and liabilities*

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

**N. New standards and interpretations not yet adopted****(1) IFRS 15, Revenue from Contracts with customers (hereinafter - "IFRS 15")**

IFRS 15 replaces the current guidance regarding recognition of revenues and presents a new model for recognizing revenue from contracts with customers. IFRS 15 provides two approaches for recognizing revenue: at a point in time or over time. The model includes five steps for analyzing transactions so as to determine when to recognize revenue and at what amount. Furthermore, IFRS 15 provides new and more extensive disclosure requirements than those that exist under current guidance.

*Application of the Standard*

The Group is planning on implementing the standard as from January 1, 2018 using the cumulative catch-up method, and adjusting the balance of retained earnings as at January 1, 2018.

*Changes and expected effects of the revenue recognition model*

It is noted that the information presented in this note regarding the effects of the initial application of the standard are an assessment by the Group and may differ from the policy and quantitative data to be included in the financial statements for the period of initial application.

The Group's revenue is generated from sale of goods manufactured according to customer specifications. Customer-specific goods cannot be sold to any other customer and therefore have no alternative use.

Currently, revenue is recognized when the goods are transferred to the customer or to its forwarder. Under IFRS 15, revenue from goods with no alternative use is expected to be recognized prior to shipment. Based on the Group's on-going evaluation, this could result in earlier recognition of revenue than under current guidance.

## Notes to the Consolidated Financial Statements

### Note 3 - Significant Accounting Policies (cont'd)

#### N. New standards and interpretations not yet adopted (cont'd)

#### (1) IFRS 15, *Revenue from Contracts with customers* (hereinafter - "IFRS 15") (cont'd)

##### Estimation of quantitative effect

The table below presents the expected effect of the implementation of the standard on the relevant items in the statement of financial position as of December 31, 2017:

	<u>According to current implemented policy</u>	<u>Estimated change</u>	<u>According to implementation of IFRS 15</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>	<u>\$ thousands</u>
Other accounts receivable	406	600	1,006
Inventory	3,647	(450)	3,197
Deferred tax liabilities	767	29	796
Retained earnings	25,649	121	25,770

#### (2) IFRS 9 (2014), *Financial Instruments* (hereinafter - "IFRS 9 (2014)")

IFRS 9 (2014) is a final version of the standard, which includes revised guidance on the classification and measurement of financial instruments, and a new model for measuring impairment of financial assets. This guidance is in addition to IFRS 9 (2013) which was issued in 2013.

##### Classification and measurement

In accordance with IFRS 9 (2014), there are three principal categories for measuring financial assets: amortized cost, fair value through profit and loss and fair value through other comprehensive income. The basis of classification for debt instruments is the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. Investments in equity instruments will be measured at fair value through profit and loss (unless the entity elected at initial recognition to present fair value changes in other comprehensive income).

IFRS 9 (2014) requires that changes in fair value of financial liabilities designated at fair value through profit or loss that are attributable to changes in its credit risk, should usually be recognized in other comprehensive income.

##### Impairment of financial assets

IFRS 9 (2014) presents a new 'expected credit loss' model for calculating impairment. For most financial assets, the new model presents a dual measurement approach for impairment: if the credit risk of a financial asset has not increased significantly since its initial recognition, an impairment provision will be recorded in the amount of the expected credit losses that result from default events that are possible within the twelve months after the reporting date.

If the credit risk has increased significantly, in most cases the impairment provision will increase and be recorded at the level of lifetime expected credit losses of the financial asset.

IFRS 9 (2014) is effective for annual periods beginning on or after January 1, 2018. It will be applied retrospectively with some exemptions.

The Group has examined the effects of applying IFRS 9 (2014), and in its opinion the effect on the financial statements will be immaterial.

**Notes to the Consolidated Financial Statements****Note 4 - Cash and Cash Equivalents**

	December 31 2017	December 31 2016
	<u>\$ thousands</u>	<u>\$ thousands</u>
Bank balances	3,087	8,150
Call deposits	2,002	-
	<u>5,089</u>	<u>8,150</u>

The Group's exposure to interest rate and currency risks concerning cash and cash equivalents is disclosed in Note 14 on financial instruments.

**Note 5 - Short-term Deposits**

Short-term deposits in dollars, bearing interest at an annual rate of approximately 1.59% - 2.07% (December 31, 2016: 1.25% - 1.85%).

The Group's exposure to interest rate risk concerning deposits is disclosed in Note 14 on financial instruments.

**Note 6 - Trade and Other Accounts Receivable**

	December 31 2017	December 31 2016
	<u>\$ thousands</u>	<u>\$ thousands</u>
<u>Trade accounts receivable</u>		
Trade receivables	6,548	7,796
Less provision for doubtful debts	(3)	(3)
	<u>6,545</u>	<u>7,793</u>
<u>Other accounts receivable</u>		
Government institutions	96	31
Related parties	105	111
Derivative instruments	25	5
Other receivables	180	407
	<u>406</u>	<u>554</u>

The Group's exposure to credit and currency risks concerning trade and other accounts receivable is disclosed in Note 14 on financial instruments.

## Notes to the Consolidated Financial Statements

## Note 7 - Inventory

	December 31 2017	December 31 2016
	<u>\$ thousands</u>	<u>\$ thousands</u>
Raw and packing material	2,466	2,588
Work-in-process	231	233
Finished products	950	847
	<u>3,647</u>	<u>3,668</u>

## Note 8 - Fixed Assets

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Land and Buildings	Total
	<u>\$ thousands</u>				
<b>December 31, 2017</b>					
<b>Cost</b>					
Balance as of January 1, 2017	2,783	454	1,125	12,100	16,462
Acquisitions	398	23	133	18	572
Disposals	-	(25)	-	-	(25)
Balance as of December 31, 2017	<u>3,181</u>	<u>452</u>	<u>1,258</u>	<u>12,118</u>	<u>17,009</u>
<b>Accumulated depreciation</b>					
Balance as of January 1, 2017	1,963	107	695	1,712	4,477
Depreciation for the year	255	69	132	453	909
Disposals	-	(18)	-	-	(18)
Balance as of December 31, 2017	<u>2,218</u>	<u>158</u>	<u>827</u>	<u>2,165</u>	<u>5,368</u>
Carrying amounts as of December 31, 2017	<u>963</u>	<u>294</u>	<u>431</u>	<u>9,953</u>	<u>11,641</u>
<b>Carrying amounts</b>					
January 1, 2017	<u>820</u>	<u>347</u>	<u>430</u>	<u>10,388</u>	<u>11,985</u>
December 31, 2017	<u>963</u>	<u>294</u>	<u>431</u>	<u>9,953</u>	<u>11,641</u>

## Notes to the Consolidated Financial Statements

## Note 8 - Fixed Assets (cont'd)

	Machinery and equipment	Motor vehicles	Computers and Office equipment \$ thousands	Land and Buildings	Total
<b>December 31, 2016</b>					
<b>Cost</b>					
Balance as of January 1, 2016	2,538	415	1,082	12,009	16,044
Acquisitions	245	196	43	91	575
Disposals	-	(157)	-	-	(157)
Balance as of December 31, 2016	<u>2,783</u>	<u>454</u>	<u>1,125</u>	<u>12,100</u>	<u>16,462</u>
<b>Accumulated depreciation</b>					
Balance as of January 1, 2016	1,704	172	580	1,265	3,721
Depreciation for the year	259	63	115	447	884
Disposals	-	(128)	-	-	(128)
Balance as of December 31, 2016	<u>1,963</u>	<u>107</u>	<u>695</u>	<u>1,712</u>	<u>4,477</u>
Carrying amounts as of December 31, 2016	<u>820</u>	<u>347</u>	<u>430</u>	<u>10,388</u>	<u>11,985</u>
<b>Carrying amounts</b>					
January 1, 2016	<u>834</u>	<u>243</u>	<u>502</u>	<u>10,744</u>	<u>12,323</u>
December 31, 2016	<u>820</u>	<u>347</u>	<u>430</u>	<u>10,388</u>	<u>11,985</u>

**A. Details on land rights used as fixed assets by the Group**

The land on which the Company's premises in Israel are built, has a carrying amount of USD 1,307 thousand as at December 31, 2017 (December 31, 2016: USD 1,327 thousand) and is leased from the Israel Lands Administration under a capital lease ending on June 30, 2032. The Company has the right to extend the lease period by another 49 years under certain circumstances.

**B. Acquisition of fixed assets on credit**

During the year ended December 31, 2017, the Company acquired fixed assets on credit in the amount of USD 23 thousand (December 31, 2016: USD 6 thousand).

**C. Additional information**

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2017 the original cost of such assets is USD 1,831 thousand (December 31, 2016: USD 1,302 thousand).

## Notes to the Consolidated Financial Statements

## Note 9 - Intangible Assets

	<u>Production files</u> \$ thousands	<u>Non-competition agreement</u> \$ thousands	<u>Goodwill</u> \$ thousands	<u>Total</u> \$ thousands	
<b>Cost</b>					
Balance as at January 1, 2017 and December 31, 2017	536	11	731	1,278	
<b>Amortization</b>					
Balance as at January 1, 2017	517	8	709	1,234	
Amortization for the year	19	3	-	22	
Balance as at December 31, 2017	536	11	709	1,256	
<b>Carrying amounts</b>					
January 1, 2017	19	3	22	44	
December 31, 2017	-	-	22	22	
	<u>Production files</u> \$ thousands	<u>Brand name</u> \$ thousands	<u>Non-competition agreement</u> \$ thousands	<u>Goodwill</u> \$ thousands	<u>Total</u> \$ thousands
<b>Cost</b>					
Balance as at January 1, 2016 and December 31, 2016	536	71	11	731	1,349
<b>Amortization and impairment losses</b>					
Balance as at January 1, 2016	409	54	6	-	469
Amortization for the year	108	17	2	-	127
Impairment loss	-	-	-	709	709
Balance as at December 31, 2016	517	71	8	709	1,305
<b>Carrying amounts</b>					
January 1, 2016	127	17	5	731	880
December 31, 2016	19	-	3	22	44



## Notes to the Consolidated Financial Statements

### Note 9 - Intangible Assets (cont'd)

#### A. Impairment testing for cash-generating units containing goodwill

Goodwill is allocated to the following cash-generating units:

	<b>December 31, 2017 and 2016</b>
	<b>\$ thousands</b>
Payton Planar Israeli operations	<b>22</b>
Himag Planar Magnetics Ltd. (1)	<b>-</b>
	<b>22</b>

- (1) The recoverable amount of Himag Planar cash-generating unit was based on its value in use and was determined by discounting the future cash flows to be generated from Himag Planar. As at December 31, 2016 the carrying amount of Himag Planar was determined to be higher than its recoverable amount of USD 647 thousand, thus an impairment loss in the amount of USD 709 thousand was recognized in 2016 (included in other expenses).

#### B. Key assumptions used in calculation of recoverable amount

##### (1) Discount rate

The discount rate used for calculating Himag Planar recoverable amount as at December 31, 2016 is 14.3%. Himag Planar discount rate is based on the risk-free rate for 10-year debentures issued by USA government, and adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of Himag Planar.

##### (2) Terminal value growth rate

The terminal value growth rate of Himag Planar is 2%, based on the growth prospects of the subsidiary.

### Note 10 - Other Payables

	<b>December 31 2017</b>	<b>December 31 2016</b>
	<b>\$ thousands</b>	<b>\$ thousands</b>
Employees and related benefits	<b>711</b>	646
Government institutions	-	1
Contingent consideration liability (*)	-	24
Other payables and accrued expenses	<b>767</b>	754
	<b>1,478</b>	1,425

- (\*) Commitment of Himag Planar for additional consideration according to the purchase agreement of the business activity of Himag Solutions Ltd. was paid in full during 2017.

The Group's exposure to currency and liquidity risks concerning other payables is disclosed in Note 14 on financial instruments.

**Notes to the Consolidated Financial Statements****Note 11 - Employee Benefits**

Employee benefits include post-employment benefits and short-term benefits.

Composition of employee benefits:

	<b>December 31 2017</b>	<b>December 31 2016</b>
	<b>\$ thousands</b>	<b>\$ thousands</b>
<b>Presented under current liabilities:</b>		
Short-term employee benefits	457	412
<b>Presented under non-current liabilities:</b>		
Net liability for defined benefit plan	514	359
Total employee benefits	971	771

**A. Post-employment benefit plans - defined benefit plan**

The Group has defined benefit plans for which it makes contributions to appropriate insurance policies.

	<b>December 31 2017</b>	<b>December 31 2016</b>
	<b>\$ thousands</b>	<b>\$ thousands</b>
Present value of defined benefit obligation	1,744	1,479
Fair value of plan assets	(1,230)	(1,120)
Recognized liability for defined benefit obligations	514	359

**1. Movements in the present value of the defined benefit obligations**

	<b>2017</b>	<b>2016</b>
	<b>\$ thousands</b>	<b>\$ thousands</b>
Defined benefit obligations as at January 1	1,479	1,354
Benefits paid	(279)	(1)
Change in population	214	-
Current service costs	76	84
Interest costs	68	65
Changes in respect of foreign exchange differences	179	23
Remeasurement of defined benefit plan	7	(46)
Defined benefit obligation as at December 31	1,744	1,479

## Notes to the Consolidated Financial Statements

## Note 11 - Employee Benefits (cont'd)

## A. Post-employment benefit plans - defined benefit plan (cont'd)

## 2. Movements in plan assets

	<u>2017</u>	<u>2016</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>
Fair value of plan assets as at January 1	1,120	1,035
Contributions by employer	63	72
Funded benefits paid	(245)	-
Change in population	186	-
Interest income	29	31
Changes in respect of foreign exchange differences	116	15
Remeasurement of defined benefit plan	(39)	(33)
	<u>1,230</u>	<u>1,120</u>

## 3. Expenses recognized in profit or loss

	<u>For the year ended December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>
Current service costs	76	84
Interest costs	68	65
Interest income	(29)	(31)
Change in population	28	-
Net change in respect of foreign exchange differences	63	8
	<u>206</u>	<u>126</u>

## 4. Recognized in other comprehensive income

	<u>For the year ended December 31</u>	
	<u>2017</u>	<u>2016</u>
	<u>\$ thousands</u>	<u>\$ thousands</u>
Defined benefit obligation:		
Actuarial (losses) gains from changes in financial assumptions	(99)	1
Actual return less interest income	11	12
Other actuarial gains	60	30
Changes in respect of foreign exchange differences	21	3
	<u>(7)</u>	<u>46</u>
Plan assets:		
Actual return less interest income	23	33
Other actuarial gains	16	-
	<u>39</u>	<u>33</u>
Net actuarial (losses) gains in the year	<u>(46)</u>	<u>13</u>

## Notes to the Consolidated Financial Statements

### Note 11 - Employee Benefits (cont'd)

#### A. Post-employment benefit plans - defined benefit plan (cont'd)

##### 5. Actual return

	For the year ended December 31	
	2017	2016
	%	%
Actual return on plan assets	<b>2.43</b>	1.65

##### 6. Actuarial assumptions and Sensitivity analyses

Principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2017	2016
	%	%
Discount rate as at December 31	<b>1.87</b>	2.65
Future salary growth	<b>3</b>	3
Leave rates for employees:		
Less than 10 years of service	<b>5</b>	5
10 years of service or more	<b>2</b>	2

Assumptions regarding future mortality are based on published statistics and mortality tables.

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	1% Increase		1% Decrease	
	December 31		December 31	
	2017	2016	2017	2016
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Future salary growth	<b>197</b>	149	<b>(154)</b>	(100)
Discount rate	<b>(145)</b>	(99)	<b>189</b>	148

##### 7. Effect of the plan on the Group's future cash flows

The Group expects to pay approximately USD 75 thousand in contributions to the funded defined benefit plan in 2018.

The Group estimates the plan's duration (based on weighted average) to be 11.45 years at the end of the reporting period (2016: 12.51 years).

## Notes to the Consolidated Financial Statements

### Note 11 - Employee Benefits (cont'd)

#### B. Post-employment benefit plans – defined contribution plan

	For the year ended December 31	
	2017	2016
	\$ thousands	\$ thousands
Amount recognized as expense in respect of defined contribution plan	<b>411</b>	364

#### C. Short-term employee benefits

	December 31	December 31
	2017	2016
	\$ thousands	\$ thousands
Provision for vacation and recreation	<b>343</b>	334
Liabilities for bonus	<b>83</b>	78
Post-employment liability	<b>31</b>	-
	<b>457</b>	412

### Note 12 - Investments in Subsidiaries

#### Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2017:

- A. Payton Planar Holdings (1996) Ltd. (hereinafter “Payton Holdings”):**  
The Company holds 89% of the equity of Payton Holdings (an Israeli company). Payton Holdings is a non-operative company. The investment in Payton Holdings constitutes a capital note in NIS which is not linked to the CPI and does not bear any interest. During 2017 Payton Holdings proceedings of liquidation by creditors were completed. No repayment of the capital note is doable.
- B. Payton America Inc. (hereinafter “Payton America”):**  
Payton America, a fully owned U.S. corporation, located in Florida U.S.A., manufactures and sells Planar transformers and inductors.
- C. Himag Planar Magnetics Ltd. (hereinafter “Himag Planar”):**  
Himag Planar, a fully owned UK subsidiary, incorporated during December 2012 for the purpose of the business activity acquisition of Himag Solutions Ltd. The investment in Himag Planar constitutes capital notes in USD which do not bear any interest.

## Notes to the Consolidated Financial Statements

---

### Note 13 – Commitments and Contingent Liabilities

- A.** According to a Management Services Agreement signed between the Company and Wichita Ltd., a management company under the full control of Mr. David Yativ (approved by the Company's General meeting dated July 17, 2017), David Yativ will continue to provide management services as the Active Chairman of the Company for a period of 3 years, as of November 1, 2017. For providing these services by David Yativ his management company will be entitled to management fee at a monthly amount of USD 43 thousand (linked to the local Israeli index according to the base index known on April 9, 2017) which shall be raised by 3% in April 2018, April 2019 and April 2020, and a yearly bonus calculated as 3.4% of the annual profit before income taxes and before any other profit based bonus.
- B.** According to a Management Services Agreement (replacing the employment agreement of Mr. Doron Yativ) that was signed between the Company and Yaarh - Looking To The Future Ltd., a management company under the full control of Mr. Doron Yativ (approved by the Company's General meeting dated July 17, 2017), Doron Yativ will continue to provide his services as the Company's C.E.O, for a period of 3 years, as of November 1, 2017. For providing these services by Doron Yativ his management company will be entitled to management fee at a monthly amount of USD 22 thousand (linked to the local Israeli index according to the base index known on April 9, 2017) which shall be raised by 3% in April 2018, April 2019 and April 2020, and a yearly bonus calculated as 2% of the annual profit before income taxes and before any other profit based bonus.

### Note 14 - Financial Instruments

#### **A. Overview**

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk (including currency and interest risks)

This note presents quantitative and qualitative information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

#### **B. Credit risk**

The Group's revenues are derived from sales to customers in Israel, Asia, Europe, America and other countries around the world. The Company's Management regularly monitors the customers' balances and includes specific provisions for doubtful debts in the financial statements that adequately reflect, in the opinion of management, the loss inherent in debts the collection of which is doubtful.

The Group has credit risk insurance for most of its local and other customers, whose yearly activity exceeds USD 5 thousand and USD 10 thousand, respectively.

The Group's cash surpluses are invested in banks. The Group has a surplus cash investment policy for the purpose of reducing risk or maintaining liquidity. This policy is reviewed and updated from time to time according to market changes.

**Notes to the Consolidated Financial Statements****Note 14 - Financial Instruments (cont'd)****B. Credit risk (cont'd)****1. Exposure to credit risk**

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	December 31	
	2017	2016
	Carrying amount	
	\$ thousands	\$ thousands
Cash and cash equivalents	5,089	8,150
Short-term deposits	19,359	12,051
Trade accounts receivable	6,545	7,793
Other accounts receivable	105	111
	<b>31,098</b>	<b>28,105</b>

The aforementioned balances are presented under the items of cash and cash equivalents, short-term deposits, trade accounts receivable and other accounts receivable.

The maximum exposure to credit risk for cash and cash equivalents at the reporting date by geographic region was:

	December 31	
	2017	2016
	Carrying amount	
	\$ thousands	\$ thousands
Israel	3,155	4,134
U.S.A.	1,718	4,001
U.K.	209	15
Asia	7	-
	<b>5,089</b>	<b>8,150</b>

The maximum exposure to credit risk for short term deposits at the reporting date by geographic region was:

	December 31	
	2017	2016
	Carrying amount	
	\$ thousands	\$ thousands
Israel	17,327	12,051
U.S.A.	2,032	-
	<b>19,359</b>	<b>12,051</b>

## Notes to the Consolidated Financial Statements

### Note 14 - Financial Instruments (cont'd)

#### B. Credit risk (cont'd)

##### 1. Exposure to credit risk (cont'd)

The maximum exposure to credit risk for trade receivables at the reporting date by geographic region was:

	December 31	
	2017	2016
	Carrying amount	
	\$ thousands	\$ thousands
Israel	771	223
Asia	2,672	4,011
U.K.	241	152
Other countries in Europe	805	1,237
U.S.A.	2,039	2,169
Canada	17	1
	<u>6,545</u>	<u>7,793</u>

Principal customers of the Group at the reporting date:

	December 31	
	2017	2016
	Carrying amount	
	\$ thousands	\$ thousands
Customer A	1,333	1,647
Customer B	*	831
Customer C	452	*

\* Less than 10% of the Group's consolidated sales (see Note 16A).

##### 2. Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31			
	2017		2016	
	Gross	Impairment	Gross	Impairment
	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Not past due	5,042	-	6,373	-
Past due 0-30 days	941	-	1,155	-
Past due 31-120 days	522	-	179	-
Past due 121 days to one year	40	-	75	-
Past due more than one year	3	(3)	14	(3)
	<u>6,548</u>	<u>(3)</u>	<u>7,796</u>	<u>(3)</u>



**Notes to the Consolidated Financial Statements****Note 14 - Financial Instruments (cont'd)****C. Liquidity risk**

The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The following are the contractual maturities of financial liabilities based on the actual rates at the reporting date, including estimated interest payments:

	<b>December 31, 2017</b>		
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>
	<b>\$ thousands</b>		
Non-derivative financial liabilities			
Trade payables	<b>3,092</b>	<b>3,092</b>	<b>3,092</b>
Other payables	<b>767</b>	<b>767</b>	<b>767</b>
	<b>3,859</b>	<b>3,859</b>	<b>3,859</b>
	<b>December 31, 2016</b>		
	<b>Carrying amount</b>	<b>Contractual cash flows</b>	<b>6 months or less</b>
	<b>\$ thousands</b>		
Non-derivative financial liabilities			
Trade payables	3,738	3,738	3,738
Other payables	778	778	778
	4,516	4,516	4,516

**D. Market risk**

The Group's normal course of business is being managed in the U.S. dollar currency, thus, most of the market risks are hedged.

Group uses, from time to time, derivatives as a tool for hedging, in order to neutralize fluctuations in profit or loss.

**1. Foreign currency risk**Currency risk

Since most of the Group's sales are in US dollar, the Group's gross profit is exposed to the changes in exchange rates of the US dollar in relation to the NIS and to the Chinese currency with regards to labor costs and costs of raw materials. The Company uses derivatives, from time to time, as a tool for economic hedging, especially in order to hedge labor costs and other costs paid in NIS.

**As at December 31, 2017, the Group has open future transactions as following:**

1. Purchase of an option to sell USD 1,500 thousand for NIS 5,250 thousand, the market value of which was estimated at an income of USD 36 thousand.
2. Sale of an option to purchase USD 3,000 thousand for NIS 10,829 thousand, the market value of which was estimated at an expense of USD (11) thousand.

## Notes to the Consolidated Financial Statements

### Note 14 - Financial Instruments (cont'd)

#### D. Market risk (cont'd)

##### 1. Foreign currency risk (cont'd)

As at December 31, 2016, the Group has open future transactions as following:

1. Purchase of an option to sell USD 1,800 thousand for NIS 6,966 thousand, the market value of which was estimated at an income of USD 17 thousand.
2. Sale of an option to purchase USD 2,000 thousand for NIS 7,800 thousand, the market value of which was estimated at an expense of USD (12) thousand.

##### (a) The exposure to foreign currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	December 31, 2017					Total
	Dollar	NIS	Euro	GBP	Other	
	\$ thousands					
Current assets:						
Cash and cash equivalents	4,905	50	42	85	7	5,089
Short-term deposits	19,359	-	-	-	-	19,359
Trade and other receivables	5,434	736	254	226	-	6,650
Current liabilities:						
Trade payables	(2,575)	(399)	(20)	(98)	-	(3,092)
Other payables	(599)	(147)	(12)	(5)	(4)	(767)
	<u>26,524</u>	<u>240</u>	<u>264</u>	<u>208</u>	<u>3</u>	<u>27,239</u>

	December 31, 2016					Total
	Dollar	NIS	Euro	GBP		
	\$ thousands					
Current assets:						
Cash and cash equivalents	7,683	273	175	19		8,150
Short-term deposits	12,051	-	-	-		12,051
Trade and other receivables	7,148	336	159	261		7,904
Current liabilities:						
Trade payables	(3,352)	(320)	(16)	(50)		(3,738)
Other payables	(681)	(94)	(2)	(1)		(778)
	<u>22,849</u>	<u>195</u>	<u>316</u>	<u>229</u>		<u>23,589</u>

## Notes to the Consolidated Financial Statements

## Note 14 - Financial Instruments (cont'd)

## D. Market risk (cont'd)

## 1. Foreign currency risk (cont'd)

## (a) The exposure to foreign currency risk (cont'd)

Information regarding significant exchange rates:

	Year ended December 31		Year ended December 31	
	2017	2016	2017	2016
	Rate of change		Reporting date spot rate	
	%	%	NIS	NIS
1 US dollar	(9.83)	(1.46)	3.467	3.845

	Year ended December 31		Year ended December 31	
	2017	2016	2017	2016
	Rate of change		Reporting date spot rate	
	%	%	Euro	Euro
1 US dollar	(12.20)	3.48	0.835	0.951

	Year ended December 31		Year ended December 31	
	2017	2016	2017	2016
	Rate of change		Reporting date spot rate	
	%	%	GBP	GBP
1 US dollar	(9.10)	20.59	0.740	0.814

## (b) Sensitivity analysis

A weakening of the USD against the following currencies as at December 31 would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2016.

	Profit or loss	
	December 31	December 31
	2017	2016
	\$ thousands	\$ thousands
Increase in the exchange rate of:		
5% in the NIS	12	10
5% in the Euro	13	16
5% in the GBP	10	11

A strengthening of the USD against the above currencies as at December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

## Notes to the Consolidated Financial Statements

---

### Note 14 - Financial Instruments (cont'd)

#### D. Market risk (cont'd)

##### 2. Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to cash equivalents and short-term deposits (in US dollars) which bear interest rates given by or affected by banks in the range of 1.51%-2.07% which changes from time to time.

##### (a) Profile

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments was:

	December 31	
	2017	2016
	Carrying amount	
	\$ thousands	\$ thousands
<b>Fixed rate instruments</b>		
Financial assets	<u>21,361</u>	<u>12,051</u>

##### (b) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

#### E. Fair value

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

### Note 15 - Share Capital and Reserves

#### A. Share capital - Composition

	Number of shares	
	Authorized	Issued and paid
	December 31, 2017 and 2016	
Ordinary shares of NIS 1 each	<u>20,000,000</u>	<u>17,670,775</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to Company's residual assets.

**Notes to the Consolidated Financial Statements****Note 15 - Share Capital and Reserves (cont'd)****B. Dividends**

The following dividends were paid by the Company:

	<b>December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$ thousands</b>	<b>\$ thousands</b>
USD 0.175 per ordinary share	<b>3,092</b>	3,092

**Note 16 - Income Statement Data****A. Revenues**

## 1. Revenues

	<b>For the year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$ thousands</b>	<b>\$ thousands</b>
Export	<b>32,006</b>	31,539
Local	<b>1,037</b>	815
	<b>33,043</b>	32,354

## 2. Principal customers

The sales revenues include sales to principal customers (which make up in excess of 10% of the sales of the Group):

	<b>For the year ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>%</b>	<b>%</b>
Customer A	<b>18</b>	18
Customer B	*	11
Customer C	<b>10</b>	*

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

## Notes to the Consolidated Financial Statements

### Note 16 - Income Statement Data (cont'd)

#### B. Cost of sales

	For the year ended December 31	
	2017	2016
	\$ thousands	\$ thousands
Materials consumed	13,307	13,626
Salaries and related benefits	5,044	4,448
Depreciation and amortization	639	743
Other manufacturing expenses	1,175	1,005
Change inventory of finished products and work in process	(101)	457
	<b>**20,064</b>	<b>**20,279</b>

\*\* Includes inventory write-off of USD 83 thousand and USD 122 thousand for the years ended December 31, 2017 and 2016, respectively.

#### C. Selling and marketing expenses

	For the year ended December 31	
	2017	2016
	\$ thousands	\$ thousands
Salaries and related benefits	1,035	1,028
Sales commissions	838	770
Advertising and marketing	46	64
Exhibits and travel abroad	264	332
Other	86	60
	<b>2,269</b>	<b>2,254</b>

#### D. General and administrative expenses

	For the year ended December 31	
	2017	2016
	\$ thousands	\$ thousands
Salaries and related benefits	1,229	1,159
Office rent, maintenance and communications	195	204
Depreciation	292	268
Professional services	235	211
Management fees and related benefits to a related party	609	525
Other	388	592
	<b>2,948</b>	<b>2,959</b>

## Notes to the Consolidated Financial Statements

## Note 16 - Income Statement Data (cont'd)

## E. Other income (expenses), net

	For the year ended December 31	
	2017	2016
	\$ thousands	\$ thousands
Capital gain on sale of fixed assets	4	7
Changes in the fair value of contingent consideration	-	69
Impairment loss on goodwill (see Note 9A(1))	-	(709)
	<b>4</b>	<b>(633)</b>

## F. Finance income and expenses

	For the year ended December 31	
	2017	2016
	\$ thousands	\$ thousands
<b>Finance income</b>		
Interest income from bank deposits	267	135
Interest from tax overpayments	-	8
Exchange rate differences, net	26	-
Other	64	47
	<b>357</b>	<b>190</b>
<b>Finance expenses</b>		
Bank charges and others	37	26
Interest for delayed tax payments	7	-
Changes in fair value of contingent consideration due to the passage of time	-	12
Exchange rate differences, net	-	9
	<b>44</b>	<b>47</b>

## G. Transactions and balances with related parties

Compensation and benefits to key management personnel and interested parties (including directors) that are employed by the Group:

	Year ended December 31				December 31	
	2017		2016		2017	2016
	Number of People	Amount \$ thousands	Number of People	Amount \$ thousands	Outstanding balance \$ thousands	
Short-term employee benefits (*)		803		697	164	149
Post-employment benefits		98		67	64	73
	<b>5</b>	<b>901</b>	<b>5</b>	<b>764</b>	<b>228</b>	<b>222</b>

(\*) Including full year compensation paid to a related party that starting November 1, 2017 providing his services through his fully owned company - see Note 13B.

## Notes to the Consolidated Financial Statements

### Note 16 - Income Statement Data (cont'd)

#### G. Transactions and balances with related parties (cont'd)

Compensation to key management personnel (including directors) that are not employed by the Group:

	Year ended December 31				December 31	
	2017		2016		2017	2016
	Number of People	Amount \$ thousands	Number of People	Amount \$ thousands	Outstanding balance \$ thousands	Outstanding balance \$ thousands
Total compensation to directors not employed by the Group	<u>3</u>	<u>36</u>	<u>4</u>	<u>33</u>	<u>8</u>	<u>9</u>
Total compensation to key management personnel not employed by the Group (*)	<u>1</u>	<u>758</u>	<u>1</u>	<u>660</u>	<u>288</u>	<u>230</u>
Accounts receivable- The Parent Company	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>105</u>	<u>111</u>

(\*) Management fees and related benefits to Wichita Ltd. (see Note 13A) include an amount of USD 149 thousand (year ended December 31, 2016: USD 135 thousand) recorded as selling and marketing expenses.

Inter-company transactions between the Company and its two fully owned subsidiaries (Payton America Inc. and Himag Planar Magnetics Ltd.) include, inter alia, the following: Buy&Resale, engineering support, marketing, administrative and management services. All the inter-company transactions are being eliminated within consolidated financial statements.

### Note 17 - Income Taxes

#### A. Details regarding the tax environment of the Company

##### 1. Corporate tax rate

- (a) Presented hereunder are the tax rates relevant to companies that are not entitled to benefits according to the Law for the Encouragement of Capital Investments in the years 2016 – 2018:

2016 – 25%  
2017 – 24%  
2018 – 23%

On January 4, 2016 the Knesset plenum passed the Law for the Amendment of the Income Tax Ordinance (Amendment 216) - 2016, by which, inter alia, the corporate tax rate would be reduced by 1.5% to a rate of 25% as from January 1, 2016.



## Notes to the Consolidated Financial Statements

---

### Note 17 - Income Taxes (cont'd)

#### A. Details regarding the tax environment of the Company (cont'd)

##### 1. Corporate tax rate (cont'd)

###### (a) (cont'd)

As a result of the reduction in the tax rate to 25%, the deferred tax balances as at January 4, 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.

Furthermore, on December 22, 2016 the Knesset plenum passed the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018) – 2016, by which, inter alia, the corporate tax rate would be reduced from 25% to 23% in two steps. The first step will be to a rate of 24% as from January 2017 and the second step will be to a rate of 23% as from January 2018.

As a result of the reduction in the tax rate to 23% in two steps, the deferred tax balances as at December 31, 2016 were calculated according to the new tax rate specified in the Economic Efficiency Law (Legislative Amendments for Achieving Budget Objectives in the Years 2017 and 2018), at the tax rate expected to apply on the date of reversal.

The effect of the changes described above on the financial statements as at December 31, 2016 is reflected in a decrease in the deferred tax liabilities in the amount of USD 25 thousand. The adjustment in deferred liabilities was recognized against deferred tax income in the amount of USD 23 thousand and against other comprehensive income in the amount of USD 2 thousand.

Current taxes for the reported periods are calculated according to the tax rates presented above. See also Note 17A(4) hereunder.

- (b) According to various amendments to the Income Tax Ordinance (New Version) – 1961, IFRS shall not apply when determining the taxable income for the 2007 through 2013 tax years even if IFRS was applied when preparing the financial statements.

##### 2. The Dollar regulations

The Company, being a "foreign investment company", elected to be taxed as from the year 2009, based upon its results in dollars and according to applicable income tax regulations (hereinafter - "the Dollar regulations").

##### 3. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company currently qualifies as an "Industrial Company" as defined in the Law for the Encouragement of Industry (Taxes) - 1969 and accordingly it is entitled to benefits, of which the most significant one is higher rates of depreciation.

## Notes to the Consolidated Financial Statements

---

### Note 17 - Income Taxes (cont'd)

#### A. Details regarding the tax environment of the Company (cont'd)

#### 4. Tax benefits under the Law for the Encouragement of Capital Investments - 1959 ("the Investment Law")

##### Amendment to the Law for the Encouragement of Capital Investments – 1959

The Company is subject to the Law for the Encouragement of Capital Investments – 1959 which was amended last in 2010 (hereinafter - "the Amendment to the Law"). The Amendment to the Law provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment to the Law.

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, a preferred enterprise track was introduced, which mainly provide a uniform and reduced tax rate for all the company's income entitled to benefits. On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which raised the tax rates on preferred income as from the 2014 tax year as follows: 9% for Development Area A and 16% for the rest of the country.

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 20% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties.

On December 22, 2016, the Israeli parliament passed a law that reduces the tax rate on preferred income for companies located in Development Area A from 9% to 7.5%, commencing on January 1, 2017.

The Company complies with the conditions provided in the amendment to the Law for the Encouragement of Capital Investments for inclusion in the scope of the tax benefits track.

#### B. Details regarding the tax environment of the subsidiary in USA

Payton America is subject to the tax rate of its country of domicile.

The primary tax rates applicable to the subsidiary are Federal Tax at gradual rates up to 34% and 5% State Tax.

#### C. Details regarding the tax environment of the subsidiary in UK

Himag Planar is subject to the tax rate of its country of domicile.

The primary tax rate applicable to the subsidiary is 20%.

#### D. Final tax assessments

The Company has final tax assessments up to and including the 2011 tax year.

With few exceptions the U.S. subsidiary is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2014.

## Notes to the Consolidated Financial Statements

---

### Note 17 - Income Taxes (cont'd)

#### E. Composition of income tax expense

	For the year ended	
	December 31	
	2017	2016
	\$ thousands	\$ thousands
Current year taxes	1,094	936
Deferred tax expense - creation and reversal of temporary differences, net	201	194
Deferred tax income - effect of changes in tax rate	-	(23)
	<u>1,295</u>	<u>1,107</u>

#### F. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and their actual tax expense, is as follows:

	For the year ended	
	December 31	
	2017	2016
	\$ thousands	\$ thousands
Tax rate	24%	25%
Profit before tax	<u>6,839</u>	<u>5,360</u>
Income tax using the domestic corporations tax rate	1,641	1,340
Tax saving in respect of foreign subsidiaries	(5)	(48)
Non-deductible expenses and tax exempt income, net	4	3
Tax benefits due to Preferred Enterprise status	(429)	(421)
Current year tax losses and other differences for which deferred taxes were not created	-	253
Changes in tax rate	-	(23)
Others	84	3
	<u>1,295</u>	<u>1,107</u>

**Notes to the Consolidated Financial Statements****Note 17 - Income Taxes (cont'd)****G. Deferred tax assets and liabilities****(1) Recognized deferred tax assets and liabilities**

Deferred taxes in respect of companies in Israel are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above. Deferred taxes in respect of foreign subsidiary are calculated according to the relevant tax rates.

Deferred tax assets and liabilities are attributable to the following items:

	Carry- forward tax losses	Employee benefits	Fixed assets	Total
	\$ thousands			
Balance as at January 1, 2016	33	118	(552)	(401)
Effect of changes in tax rate	-	(7)	32	25
Changes recognized in profit or loss	6	16	(216)	(194)
Changes recognized in other comprehensive income	-	(2)	-	(2)
Balance as at December 31, 2016	39	125	(736)	(572)
Changes recognized in profit or loss	(15)	28	(214)	(201)
Changes recognized in other comprehensive income	-	9	-	9
Balance as at December 31, 2017	<u>24</u>	<u>162</u>	<u>(950)</u>	<u>(764)</u>
	Carry- forward tax losses	Employee benefits	Fixed assets	Total
	\$ thousands			
Deferred tax assets	<u>24</u>	<u>162</u>	-	<u>186</u>
Offset of balances				<u>(183)</u>
Deferred tax asset in statement of financial position as at December 31, 2017				<u>3</u>
Deferred tax liability	-	-	(950)	(950)
Offset of balances				<u>183</u>
Deferred tax liability in statement of financial position as at December 31, 2017				<u>(767)</u>

## Notes to the Consolidated Financial Statements

### Note 17 - Income Taxes (cont'd)

#### G. Deferred tax assets and liabilities (cont'd)

##### (1) Recognized deferred tax assets and liabilities (cont'd)

	Carry- forward tax losses	Employee benefits	Fixed assets	Total
	\$ thousands			
Deferred tax assets	39	125	-	164
Offset of balances				(125)
Deferred tax asset in statement of financial position as at December 31, 2016				<u>39</u>
Deferred tax liability	-	-	(736)	(736)
Offset of balances				125
Deferred tax liability in statement of financial position as at December 31, 2016				<u>(611)</u>

##### (2) Unrecognized deferred tax liabilities

As at December 31, 2017 a deferred tax liability in the amount of USD 167 thousand (2016: USD 164 thousand) for temporary differences in the amount of USD 725 thousand (2016: USD 657 thousand) related to an investment in a subsidiary was not recognized because the decision as to whether to incur the liability rests with the Group and it is satisfied that it will not be incurred in the foreseeable future.

##### (3) Unrecognized deferred tax assets

As at December 31, 2017 deferred tax assets have not been recognized mainly in respect of tax losses in the amount of USD 1,323 thousand (2016: USD 1,507 thousand) since currently it is not probable that future taxable profit will be available, against which the Group can utilize the benefits.

### Note 18 - Earnings Per Share

#### Basic earnings per share

	For the year ended December 31	
	2017	2016
Profit for the year (\$ thousands)	<u>5,544</u>	<u>4,253</u>
Issued ordinary shares (in thousands of shares)	<u>17,671</u>	17,671
Basic earnings per ordinary share (in US\$)	<u>0.31</u>	<u>0.24</u>

## Notes to the Consolidated Financial Statements

### Note 19 - Entity Wide Disclosures

- A. The Group has one operating segment, the transformer segment. The Group's chief operating decision maker makes decisions and allocates resources with respect to all the transformers as a whole.

Management observes the operating data up to the net profit, in consistent of the consolidated financial reports presented in accordance with IFRS.

In presenting information on the basis of geographical segments, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

	For the year ended December 31, 2017				
	Israel \$ thousands	Europe \$ thousands	America \$ thousands	Asia \$ thousands	Total \$ thousands
Revenues	<u>1,503</u>	<u>7,867</u>	<u>8,475</u>	<u>15,198</u>	<u>33,043</u>
Non-current assets	<u>10,075</u>	<u>890</u>	<u>698</u>	<u>-</u>	<u>11,663</u>
	For the year ended December 31, 2016				
	Israel \$ thousands	Europe \$ thousands	America \$ thousands	Asia \$ thousands	Total \$ thousands
Revenues	<u>1,352</u>	<u>6,720</u>	<u>7,967</u>	<u>16,315</u>	<u>32,354</u>
Non-current assets	<u>10,366</u>	<u>937</u>	<u>726</u>	<u>-</u>	<u>12,029</u>

- B. Information about sales to principal customers - see Note 16A(2).

### Note 20 - Subsequent Events

On March 26, 2018, the Company's Board of Directors decided to pay the shareholders a dividend for the financial year 2017 at the amount of USD 3,092 thousand (USD 0.175 per share, to be paid on May 24, 2018).