P A Y T O N   G R O U P
I N T E R N A T I O N A L

Payton Planar Magnetics Ltd.

Annual Report 2007

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The Board of Directors' Report[1] on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries for the year ended on December 31, 2007

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 emphasize that the assumptions does not in any way imply commitment towards realization. The outcome of which is subject to certain risks and other factors, which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.

Reference in this report to forward looking statement shall be by stating that such information is given by way of estimation, evaluation, assessment, intentions, expectations, beliefs and similar terms, but it is possible that such information shall be given under other phrases.

1. A concise description of the corporation and its business environment

A. The Group

Payton Planar Magnetics Ltd. ("the Company") and its consolidated subsidiaries: Payton America Inc. ("Payton America"), Payton Planar Holdings (1996) Ltd. ("Payton Holdings").

B. The Group's main fields of activity and changes that occurred in the period from January to December 2007

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

1. **Purchase of a property located in Deerfield Beach, South Florida, U.S.A**

- On September 17, 2007, the fully owned subsidiary of the Company Payton America Inc. ("P.America") purchased a property located in Deerfield Beach, South Florida, U.S.A. The purchased property is going to serve P.America instead of its current leased premises.
- The purchased property area is 4,680 Sq. Ft. (435 Sq. Mt.) under roof plus 1,476 Sq. Ft. (137 Sq. Mt.) of an outside fenced storage yard, the total direct cost of it amounted to USD 702 thousand. Interior construction including related expenses is currently estimated by additional USD 200 thousand.
- The company expects to move to its new location during 2008.

[1] The financial statements as at December 31, 2007 form an integral part thereof.

2. Last year (2006) the Company took a decision to expand and modernize its Printed Circuits Board ("PCB") facility in Ashkelon, Israel, which specializes in manufacturing of Heavy Copper PCB's and Multi-Layer Boards unique for Planar Transformers and Power Electronic applications. The estimated investment was USD 1.5 - 2.0 millions. As of the date of signing these reports, the infrastructure for the new facility is in progress. A delay with the implementation of the new Electrolytic Pattern Plating line is expected due to some difficulties with the supplier.

3. On March 18, 2008, **Payton Industries, the parent company** of the Company signed a Memorandum of Understanding ("M.O.U") with A.C.P. Advanced Cores Production ("ACP") regarding an acquisition of 100% of ACP's shares.
   ACP is a private Israeli Company, who manufactures and markets Amorphous Magnetic Cores, mainly for the Transformers Industry.
   The acquisition will amount to US$600 thousand in cash and additional US$350 – US$400 thousand, within three years, as an agreed percentage of ACP's future sales.
   The acquisition of ACP is in line with Payton's Group Objectives & Business Strategy looking for M&A business opportunities to extend its core business with synergetic product lines.
   The M.O.U is non-binding and the agreement is subject to completion of a technical, financial and legal, due-diligence.

C. Sales

The Group major customer base is related to the Telecom market. Additional markets the Group aims to, are the Industrial, Automotive Instrumentation and Military markets.

Sales for the year ended December 31, 2007 amounted to USD 18,957 thousand compared with USD 21,564 thousand for the year ended December 31, 2006. The sales decrease is explained by the fact that two projects, of two former substantial customers, reached their end of life cycle.
Revenues for the year ended 2007 consisted of recurring sales to existing customers and sales to new ones.
The Sales were generated primarily from large telecom companies and from industrial applications manufacturers.
The Company believes it has effectively penetrated the larger telecom companies in Europe and nowadays is targeting telecom, automotive, industrial and military companies in: North America, Japan, Taiwan and South Korea.

D. Principal customers

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

	For the year ended December 31	For the year ended December 31
	2007	**2006**
Customer A*	20.1%	13.3%
Customer B	20.1%	16.7%

* During 2007 Customer A merged with a non-major customer of the Company.

E. Marketing

During year 2007 the Group participated in the following exhibitions:

- "APEC 2007" exhibition in Los Angeles, U.S.A.
- "Electronica & Productronica China 2007 with PCIM" exhibition in Shanghai, China.
- "Electronica" exhibition in Tel-Aviv, Israel.
- "PCIM" exhibition in Nuremberg, Germany.
- "Power systems" exhibition in California, U.S.A.

During 2007 the Company had intensed its focus to the North American and the Far East markets.
Management expects that the future sales to the North American and the Far East markets will increase.
It is noted that the expected increase in sales to the North American and Far East markets as stated herein is a forward-looking statement as defined above.

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.
- In addition to the Telecom segments, focusing on additional commercial segments such as Automotive, Military and Data Processing.
- Use representatives network as sales channels.
- Expanding our activity in the North American market.
- Deepening activity with existing customers.

F. Manufacturing

The group is acting to extend it's manufacturing and capacity capabilities, through training and guiding manufacturing partners in the Far East. This activity objective is to increase production capacity, lower the products cost and increase competitiveness.
It is noted that the above statement is a forward-looking statement as defined above.

G. Competition

In the recent years there has been an increasing interest of conventional transformer manufacturer 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 estimate it could generally benefit from an increasing competition in the market due to greater exposure of the technology.

The company cannot estimate it's future market share. The following companies are considered as it's potential competitors: Pulse and Coilcraft- from the U.S.A., Premo – from Spain, Tokin – from Japan and Hi-Mag – from U.K.

H. Order and Purchase Backlog

Order and purchase backlog of the Group as of December 31, 2007 were USD 3,903 thousand; and as of March 24, 2008 this backlog amounted to USD 6,619 (December 31, 2006 - 5,332 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 31.12.07 will be supplied until end of September, 2008.

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

I. 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 and 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 2007, the Group employed 164 people (including executive officers). The Company has signed employment contracts with most of its key employees and is of the opinion that relations with its employees are satisfactory.

J. Quality Control

Payton Group has the ISO9001:2000 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 also certified with ISO14001:2004 (Environmental standard). Payton is a Lead Free company as required by the 2002/95/EC RoHS directive.

K. 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.

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

1. 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.
2. Selectively developing additional key strategic customers, especially In North America, Taiwan, Japan and South Korea in order to further propagate Payton Planar unique technology.
3. In addition to the present Telecom market, Instrumentation segment, Industrial and power portable application market, to aim and focus to new high growth segments such as Automotive, Military, Avionics and Space applications.
4. Continuing to educate the Power Electronics industry about Planar technology.
5. Continuing to develop its mass production expertise to a level that will enable Payton to address the large price-sensitive segments of the global Magnetics market.
6. Payton is constantly looking for business opportunities to extend its core business with synergetic product lines.

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

L. Coming year outlook

In year 2008 the group expect to continue its regular course of business. It will continue to invest efforts to expand the product exposure and broaden its market.

M. Risk Factors

	Major Impact	Medium Impact	Small Impact
Macro Risks	▪ Evaluation of the local Israeli currency reflects an increase in labor costs and other operating costs. ▪ Chinese currency Evaluation against the USD increases cost of goods sold.		
Market Risks		▪ Telecom market fluctuations ▪ Metals prices increase especially: Copper, Steel, Tin and Silver, which are part of the transformers bill of materials.	
Specific Risks		Manufacturing partners dependency	

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

N. Current Shareholders position (Not including issued stock options)

Shareholder name	Number of shares	Percentage of the outstanding shares	Comments
Payton Industries Ltd.	11,689,381	66.2%	Israeli company traded in the Tel Aviv stock exchange.
Public	5,981,394	33.8%	Listed on the EuroNext since June 1998.
Total	17,670,775	100.0%	Total outstanding shares.

Information Regarding Stock Options - See note 18B to the consolidated financial statements.

2. Financial position

A. Balance Sheet as at December 31, 2007

Cash and cash equivalents, Marketable securities and Short-term Deposits – these three items amounted to a total of USD 15,876 thousand as at December 31, 2007 compared to USD 10,018 thousand as at December 31, 2006.

The increase in this item resulted mainly from the net income for the year.

As at December 31, 2007 the Marketable Securities, amounting to USD 3,628 thousands, are comprised Bonds and Preferred Stocks.

Trade accounts receivable – these amounted to USD 4,277 thousand as at December 31, 2007 compared to USD 5,293 thousand as at December 31, 2006. The decrease in this item resulted from the decrease in sales volume.

Property, plant and equipment, net – these amounted to USD 1,337 thousand as at December 31, 2007 compared to USD 543 thousand as at December 31, 2006. The increase in this item resulted from purchasing the property in Florida, U.S.A (See paragraph 1.B.1 above).

Current tax liability - this amounted to USD 1,283 thousand as at December 31, 2007 compared to USD 445 thousand as at December 31, 2006. The increase in company's liability for income tax payment resulted of the net profit for the period. (As at 31.12.06 the Company used most of its deferred tax assets).

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

Interest rate exposure

All the Group's Short-term bank credit was repaid on September 2007. Thus, there is no interest rate exposure regarding Short-term bank credit.

The Group's cash equivalent and short-term bank Deposits are in USD bearing USD interest rates given by banks (about 5%), 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 in the reported period were in USD or were linked to the USD. Approximately 11% of the Group's sales were in Euro.

Approximately 95% of the costs of raw material purchased by the Group during the reported period were in USD or were linked to the USD.

Approximately 87% of the Group salaries during the reported year ended December 31, 2007 were in New Israeli Shekel ("NIS"), 13% were in USD or linked to the USD.

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 and to the local New Israeli Shekel ("NIS") with regards to labor costs and cost of raw materials (see also Data on linkage terms, above).

The Group is exposed to erosion of the USD in relation to the NIS. Devaluation of the U.S. Dollar with relation to the local Israeli currency leads to an increase in the Group’s labor costs. Most of the Group’s salaries and other operating costs are fixed in the local NIS. Recent fluctuation of the U.S. Dollar with relation to the NIS has an influence on the operating results of the company.

The company is subcontracting Chinese ventures. Devaluation of the U.S. Dollar with relation to the Chinese currency has an influence on the Group’s cost of goods sold.

Market risks

In 2007 the Company did not use derivatives as a tool for hedging due to cost/benefit policy. Hedging is inherently part of the operational policy of the company.

C. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Total 2007	Total 2006	Quarter 10-12/07	Quarter 7-9/07	Quarter 4-6/07	Quarter 1-3/07
Sales revenues	18,957	21,564	4,888	4,406	5,088	4,575
Cost of sales	9,493	10,275	2,348	2,411	2,429	2,305
Gross profit	*9,464*	*11,289*	*2,540*	*1,995*	*2,659*	*2,270*
Development costs	581	543	132	149	142	158
Selling & marketing expenses	1,439	1,465	395	299	364	381
General & administrative expenses	1,963	1,945	533	490	487	453
Operating income	*5,481*	*7,336*	*1,480*	*1,057*	*1,666*	*1,278*
Finance income	586	280	145	155	169	117
Finance expense	(181)	(56)	(101)	(43)	(6)	(31)
Other (expense) income	-	4	1	-	(1)	-
Profit before income taxes	*5,886*	*7,564*	*1,525*	*1,169*	*1,828*	*1,364*
Income taxes	974	721	157	159	424	234
Net profit for the year/ period	*4,912*	*6,843*	*1,368*	*1,010*	*1,404*	*1,130*

Sales revenues - The Group's sales revenues for year 2007 were USD 18,957 thousand compared with USD 21,564 thousand in year 2006.

The Group's sales revenue for the three-month period ended December 31, 2007 were USD 4,888 thousand compared with USD 4,406 thousand in the three-month period ended September 30, 2007, increase of 11%.

The sales decrease in 2007 compared with year 2006 is mainly explained by the fact that two projects, of two substantial customers reached their end of life cycle.

Gross profit – The Group's gross result for the year ended December 31, 2007 were USD 9,464 thousand (50%), compared with gross results of USD 11,289 thousand (52%) in the year ended December 31, 2006.

The Company did succeed to maintain the high gross profit level despite the sales decrease, through focusing on production efficiency and by subcontracting production to Chinese venture.

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, 2007 were USD 581 thousand compared with USD 543 thousand in the year ended December 31, 2006.

Selling & marketing expenses – The Group's selling & marketing expenses are based on the management policy and are not related to sales, except sales commissions to the Group's reps' and Marketing Personnel, that are calculated as a portion of sales. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.

General & Administrative expenses – These amounted to USD 1,963 thousand in the year ended December 31, 2007 compared with USD 1,945 thousand in the year ended December 31, 2006. The increase in these expenses is explained mainly by the decrease in exchange rate of the USD in relation to the NIS causing an increase in these expenses when they are presented in USD and also by increase in depreciation as result of investments in computers.

Taxes on income – These amounted to a net tax expense of USD 974 thousand in the year ended December 31, 2007 compared with USD 721 thousand in the year ended December 31, 2006. It is noted that year 2006 the company recorded a tax income amounting USD 706 thousand due to recognizing a deferred tax asset, this tax income offset the tax expense.
As at December 31, 2007 the Company used most of its deferred tax assets and its profits are fully taxable.

3. Liquidity

A. Liquidity Ratios

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

Payton Planar Magnetics Ltd. Consolidated financial ratios		
	31 December 2007	**31 December 2006**
Current ratio[2]	4.57	4.32
Quick ratio[3]	4.16	3.83

B. Operating activities

Cash flow generated from operating activities for the year ended December 31, 2007 amounted USD 6,501 thousand, compared with the cash flow generated from operating activities of USD 6,784 thousand for the year ended December 31, 2006. In spite of the a decrease of USD 1,931 thousand in the net profit for year, the Cash flow provided by operating activities decreased only by USD 283 thousands, thus, mainly due to the decrease in trade receivables.

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

C. **Investing activities**

Cash flow used for investment activities in the year ended December 31, 2007, amounted USD 4,707 thousand, compared with USD 1,673 thousand in the year ended December 31, 2006.
Cash flow used for investing activities in year 2007 resulted from investing in: deposits, marketable securities and in the property at Florida, U.S.A.

4. Financing sources

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

5. External factors effects

5.1 Devaluation of the U.S. Dollar with relation to the local Israeli currency leads to an increase in the Group's labor costs. Most of the Group's salaries and other operating costs are fixed in local New Israeli Shekel ("NIS"). The devaluation of the U.S. Dollar with relation to the NIS has an influence on the operating results of the company.

5.2 The company is subcontracting Chinese ventures. Devaluation of the U.S. Dollar with relation to the Chinese currency has an influence on the Group's cost of goods sold.

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 effect the Company's financial position or results of operations.

The Company's Board of Directors wishes to thank our shareholders for their continuance trust and belief.

The Company's Board of Directors wishes to extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

David Yativ
Chairman of the Board of Directors
and C.E.O.

Rishon Lezion, March 25, 2008.

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Independent Auditors' Report to the Shareholders of Payton Planar Magnetics Ltd.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Payton Planar Magnetics Ltd. ("the Company"), which comprise the consolidated balance sheet as at December 31, 2007, and the consolidated income statement, the consolidated statement of changes in shareholders' equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statement based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Somekh Chaikin, a partnership registered under the Israeli Partnership Ordinance, is the Israeli member firm of KPMG International, a Swiss cooperative.

We did not audit the financial statements of a subsidiary whose assets constitute 10% of the total consolidated assets as at December 31, 2007 and whose revenues constitute 13% of the total consolidated revenues for the year ended December 31, 2007. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such subsidiary, is based solely on the said reports of the other auditors.

Opinion

In our opinion based on our audit and on the reports of the abovementioned other auditors, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2007, and of its consolidated income statement, the consolidated statement of changes in shareholders' equity and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

March 25, 2008

Consolidated Balance Sheets as at December 31

	Note	2007 $ thousands	2006 $ thousands
Current assets			
Cash and cash equivalents	3	**9,063**	7,269
Marketable securities	4	**3,628**	414
Short-term deposits	5	**3,185**	2,335
Trade accounts receivable	6	**4,277**	5,293
Other accounts receivable	7	**145**	68
Inventory	8	**1,982**	1,944
Total current assets		**22,280**	17,323
Non-current assets			
Deposits		**5**	6
Other investment	9	**348**	348
Property, plant and equipment, net	10	**1,337**	543
Deferred taxes	11	**122**	167
Total non-current assets		**1,812**	1,064
Total assets		**24,092**	18,387

David Yativ Chief Executive Officer and Chairman of the Board of Directors	Michael Perez Director	Michal Lichtenstein V.P. Finance & CFO

March 25, 2008

Consolidated Balance Sheets as at December 31 (cont'd)

	Note	2007 $ thousands	2006 $ thousands
Liabilities and shareholders' equity			
Current liabilities			
Trade payables	12	**1,584**	1,580
Other payables	13	**2,008**	1,987
Current tax liability		**1,283**	445
Total current liabilities		**4,875**	4,012
Non-current liabilities			
Liability for employee severance benefits, net	14	**124**	194
Total non-current liabilities		**124**	194
Commitments, contingent liabilities and liens	16		
Shareholders' equity			
Share capital	18	**4,836**	4,836
Share premium		**8,993**	8,993
Accumulated earnings		**5,264**	352
Total shareholders' equity		**19,093**	14,181
Total liabilities and shareholders' equity		**24,092**	18,387

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

Consolidated Income Statements for the year ended December 31

	Note	2007 $ thousands	2006 $ thousands
Revenues	19A	**18,957**	21,564
Cost of sales	19B	**9,493**	10,275
Gross profit		**9,464**	11,289
Development costs		**581**	543
Selling and marketing expenses	19C	**1,439**	1,465
General and administrative expenses	19D	**1,963**	1,945
Operating income		**5,481**	7,336
Finance income	19E	**586**	280
Finance expense	19E	**(181)**	(56)
Other income		**-**	4
Profit before income taxes		**5,886**	7,564
Income taxes	20	**(974)**	(721)
Profit for the year		**4,912**	6,843
Basic and diluted earnings per ordinary share (in $)	21	**0.28**	0.39

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

Consolidated Statements of Shareholders' Equity

	Number of shares	Share capital	Share premium	Accumulated earnings (deficit)	Total
		$ thousands	$ thousands	$ thousands	$ thousands
Balance at January 1, 2006	17,600,000	4,819	9,008	(6,491)	7,336
Capital reserve from transaction with controlling shareholder	-	-	2	-	2
Exercise of option warrant into shares	70,775	17	(17)	-	-
Profit for the year	-	-	-	6,843	6,843
Balance at December 31, 2006	17,670,775	4,836	8,993	352	14,181
Profit for the year	**-**	**-**	**-**	**4,912**	**4,912**
Balance at December 31, 2007	**17,670,775**	**4,836**	**8,993**	**5,264**	**19,093**

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

Consolidated Statements of Cash Flows for the year ended December 31

	2007	2006
	$ thousands	$ thousands
Operating activities		
Net profit for the year	**4,912**	6,843
Adjustments to reconcile net income to net cash generated from operating activities:		
Depreciation	**207**	207
Capital gain on sale of equipment	**-**	(4)
(Decrease) increase in liability for employee severance benefits, net	**(70)**	90
Decrease (increase) in trade receivables	**1,016**	(2,142)
(Increase) decrease in other accounts receivable	**(77)**	108
Increase in inventory	**(38)**	(309)
Increase in trade payables	**8**	347
Increase in other payables and tax liability	**825**	1,549
Deferred taxes	**45**	276
Finance expenses from transactions with controlling shareholder	**34**	24
Loss from (gain on) marketable securities	**75**	(14)
Interest paid	-	*16
Interest received	**(436)**	*(207)
Cash flows generated from operating activities	**6,501**	6,784
Investing activities		
Investments in marketable securities	**(3,289)**	*(400)
Investments in deposits, net	**(413)**	*(1,099)
Investment in property, plant and equipment	**(1,014)**	(178)
Proceeds from sale of equipment	**9**	4
Cash flows used for investing activities	**(4,707)**	(1,673)
Financing activities		
Short-term bank credit, net	**-**	*(596)
Repayment of loan to parent company	**-**	(428)
Cash flows used for financing activities	**-**	(1,024)
Increase in cash and cash equivalents	**1,794**	4,087
Cash and cash equivalents at beginning of the year	**7,269**	3,182
Cash and cash equivalents at end of the year	**9,063**	7,269
Appendix A - Non cash investing and financing activities		
Purchase of property and equipment on supplier credit	**14**	18
Capital reserve from transactions with controlling shareholders	**-**	2

* Reclassified

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

Note 1 - General

Payton Planar Magnetics Ltd. ("the Company"), an Israeli high-tech company, was incorporated in December 1992. The Company develops, manufactures and markets Planar transformers worldwide. Its manufacturing includes the manufacture of printed circuits. In June 1998, the Company completed its initial public offering in the Euro NM.

Note 2 - Significant Accounting Policies

The financial statements were authorized for issue by the directors on March 25, 2008.

A. Definitions

1. **Subsidiaries** – those enterprises controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date the control effectively ceases.

2. **The Group** – the Company and its subsidiaries.

3. **Payton Industries Ltd.** - parent company, traded in the Tel Aviv Stock Exchange.

4. **Related parties** – a party that has the ability to control or exercise significant influence over the other party in making financial and reporting decisions. Such relationships include:

    1. Parent-subsidiary relationships.
    2. Entities under common control.
    3. Associates.
    4. Individuals who, through ownership, have significant influence over the enterprise and close members of their families.
    5. Key management personnel.

5. **Israeli CPI** – The Consumer Price Index as published by the Central Bureau of Statistics in Israel.

6. **NIS** – The Israeli currency - New Israeli Shekel.
   $ – U.S. Dollar

B. Statement of compliance

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

Note 2 - Significant Accounting Policies (cont'd)

C. Basis of preparation

The consolidated financial statements are presented in dollars, the Company's functional currency, rounded to the nearest thousand. They have been prepared on the historical cost basis, except for marketable securities, which are measured at fair value.

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

D. Data on the CPI and exchange rates:

	December 31	December 31	Rate of change in	
	2007	2006	2007	2006
CPI (points) (On the basis of the 2002 average index)	**106.4**	102.9	**3.40**	(0.10%)
Representative rate of exchange:				
$ (in NIS)	**3.846**	4.225	**(8.97%)**	(8.21%)

E. Basis of consolidation

1. Subsidiaries - see Note 2A.

2. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Note 2 - Significant Accounting Policies (cont'd)

F. Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognized in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction

G. Cash and cash equivalents

Cash and cash equivalents include short-term bank deposits with an original maturity not exceeding three months.

H. Allowance for doubtful accounts

The allowance for doubtful accounts is computed on the specific identification basis for accounts, which, in management's estimation, are doubtful of collection. In determining the appropriateness of the provisions, management based itself, among other things, on an evaluation of the risk based on the information in its possession regarding the financial condition of the debtors, the scope of their activities and an assessment of the collaterals received from them. Doubtful debts, regarding which management believes there is no chance of collecting, are written off the books based on a management decision.

I. Inventory

1. Inventory is stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Note 2 - Significant Accounting Policies (cont'd)

J. Property, plant and equipment

1. Property, plant and equipment is stated at cost less accumulated depreciation and impairment losses.
   Depreciation is recognized in profit or loss on a straight-line method over the useful lives of the assets as estimated by management.

2. Annual rates of depreciation are as follows:

	%	
Machinery and equipment	15	
Motor vehicles	15	
Computers and office equipment	6 – 33	(mainly 33%)

   Leasehold improvements are depreciated over the shorter of the lease period or the useful life of the leasehold improvement (mainly 10%).

   Depreciation methods, useful lives and residual values are reassessed at the reporting date.

3. Expenditure incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditure, is capitalized. Other subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is recognized in the income statement as an expense as incurred.

K. Other investment

Other investment that does not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured at cost less impairment losses.

L. Revenue recognition

Revenue from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.
No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods.

Customers have no option of returning the product or canceling orders. Customers approve the product in the prototype manufacture stage. As products are modified and developed for new customers (or new products adapted to existing customers), customers can have no claim against the product other than a claim of defectiveness after approval of the prototype.

Note 2 - Significant Accounting Policies (cont'd)

M. Joint expenses of the Company and related companies

Beginning January 1, 2006 the joint general and administrative expenses of the Company and of Payton Technologies Ltd. (a subsidiary of the parent company) are allocated 85% to the Company and 15% to Payton Technologies Ltd.

N. Employee benefits

1. Defined contribution plans

   Obligation for contribution to defined contribution plans is recognized as an expense in the income statement as incurred.

2. Defined benefit obligations

   The liabilities of the Group arising from defined benefit obligations, and the related current service cost, are determined using the projected unit credit method. Valuations are carried out annually for the plan. Actuarial advice is provided by an external consultant.

   Such a plan is externally funded, with the assets of the schemes held separately from those of the Group in independently insurance policies.

   Actuarial gains and losses arise mainly from changes in actuarial assumptions and differences between actuarial assumptions and what has actually occurred. They are recognized in the income statement in its full amount in the periods it incurs.

   For defined benefit plans the actuarial cost charged to the income statement consists of current service cost, interest cost, expected return on plan assets as well as actuarial gains or losses that are recognized.

O. Development costs

Development costs are mainly incurred to customize products for individual contracts. These development costs have no long-term benefit and therefore are expensed as incurred.

P. Operating lease payments

Payments made under operating leases are recognized in the income statement on a straight-line basis, over the term of the lease.

Note 2 - Significant Accounting Policies (cont'd)

Q. Financial instruments

1. Non-derivative financial instruments

Financial instruments include: cash and cash equivalents, trade receivables, other receivables, credit from others, and short and long term payables.

The fair value of the financial instruments was determined at the present value of the future cash flows resulting from using appropriate discount rates. In management's opinion the fair value of financial instruments is not materially different from their stated value.

2. Investments in marketable securities, at fair value through profit or loss.

An instrument is classified as at fair value through profit or loss if it is held for trading or is designated as such upon initial recognition. Financial instruments are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognised in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

R. Provisions

A provision is recognized in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is more likely than not that an outflow of economic benefits will be required to settle the obligation.

S. Finance Income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, and gains on hedging instrument that are recognized in profit or loss. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Company's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

T. Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the income statement except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Note 2 - Significant Accounting Policies (cont'd)

T. Income tax (cont'd)

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, nor differences relating to the extent they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that is no longer probable that the related tax benefit will be realized.

U. Earnings per share

The Company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted.

V. Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

W. Impairment

1. The carrying amounts of the Group's assets other than inventories and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognized in the income statement.
2. Calculation of recoverable amount

   The recoverable amount is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

Note 2 - Significant Accounting Policies (cont'd)

W. Impairment (cont’d)

3. Reversals of impairment

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.

X. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are not yet effective at December 31, 2007, and have not been applied in preparing these consolidated financial statements:

1. IFRIC 11 IFRS 2 - Group and Treasury share Transactions requires a share-based payment arrangement in which an entity receives goods or services as consideration for its own equity instruments to be accounted for as an equity-settled share-based payment transaction, regardless of how the equity instrumetns are obtained. IFRIC 11 will become mandatory for the Group's 2008 financial statements, with retrospective application required. It is not expected to have any impact on the consolidated financial statements.

2. The IFRIC issued interpretation IFRIC 12 "Service Concession Arrangements" on November 30, 2006. Service concessions are arrangements whereby a government or other public sector entity grants contracts for the supply of public services—such as roads, airports, prisons and energy and water supply and distribution facilities—to private sector operators. Control of the assets remains in public hands but the private sector operator is responsible for construction activities, as well as for operating and maintaining the public sector infrastructure. IFRIC 12 addresses how service concession operators should apply existing International Financial Reporting Standards (IFRSs) to account for the obligations they undertake and rights they receive in service concession arrangements. IFRIC 12 is effective for annual periods beginning on or after January 1, 2008 and is not expected to have any effect on the Company.

3. The IFRIC issued interpretation IFRIC 13 “Customer loyalty programmes” in June 2007. IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. The interpretation is effective for annual accounting periods beginning on or after July 1, 2008 and is not expected to have any effect on the consolidated financial statements.

4. The IFRIC issued interpretation IFRIC 14 “IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction” on July 5, 2007. IFRIC 14 addresses three issues: (A) when refunds or reductions in future contributions should be regarded as ‘available’ in the context of paragraph 58 of IAS 19 Employee Benefits; (B) how a minimum funding requirement might affect the availability of reductions in future contributions; and (C) when a minimum funding requirement might give rise to a liability. An entity shall apply this Interpretation for annual periods beginning on or after January 1, 2008 and it is not expected to have any impact on the consolidated financial statements of the Company.

Note 2 - Significant Accounting Policies (cont'd)

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

5. The IASB issued IFRS 8 "Operating Segments" in December 2006. This will replace IAS 14 "Segment Reporting". IAS 14 required identification of two sets of segments—one based on related products and services, and the other on geographical areas. Under IFRS 8 The identification of segments is based on the information about the components of the entity that management uses to make decisions about operating matters. IFRS 8 is effective for annual accounting periods beginning on or after January 1, 2009 and is not expected to have a material effect on the consolidated financial statements.

6. The IASB issued IAS 23 “Borrowing Costs” in March 2007, which supersedes IAS 23, revised in 1993. The amendments eliminate the option available under the previous version of the standard to recognize all borrowing costs immediately as an expense, to the extent that borrowing costs relate to the acquisition, construction or production of a qualifying asset. The revised Standard requires that they be capitalized as part of the cost of that asset. All other borrowing costs should be expensed as incurred. The revised Standard becomes mandatory for the Company’s 2009 financial statements, and is not expected to have a material effect on the consolidated financial statements.

7. The IASB issued a revised version of IAS 1 “Presentation of Financial Statements” in September 2007, which supersedes IAS 1, revised in 2003. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. The revised standard gives preparers of financial statements the option of presenting items of income and expense and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). The revisions include changes in the titles of some of the financial statements to reflect their function more clearly (for example, the balance sheet is renamed a statement of financial position). The revised standard will become mandatory for the Company’s 2009 financial statements, earlier application is permitted.
Adoption of IAS 1 is not expected to have a material effect on the Company’s financial statements.

8. IFRS 3 (2008), “Business Combinations”, refers also to business combinations executed only by contract. The definition of a business combination focusses on obtaining control; including a contingent consideration. The buyer can choose to measure the rights that do not confer control at their fair value on the date of acquisition, or according to the relative part of the fair value of the identified assets and liabilities of the acquired party. When the acquisition is effected by consecutive purchases of shares (purchase in stages), the identified assets and liabilities of the acquired party are recognized at their fair value when control is obtained. IFRS 3 (2008) shall apply to the financial statements of the Company for 2010 and is not anticipated to have an effect on the financial statements of the Company.

Note 2 - Significant Accounting Policies (cont'd)

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

9. IAS 27 (2008), “Consolidated and Separate Financial Statements”, reflects changes in the accounting treatment of the rights of holders of non-controlling interests (the minority) and mainly discusses the accounting treatment of changes in ownership rights in subsidiaries after obtaining control, the accounting treatment of loss of control in subsidiaries, and the attribution of income or loss to the holders of the controlling and non-controlling interests of a subsidiary. IAS 27 shall apply to the financial statements of the Company for 2010. the standard is not anticipated to have an effect on the financial statements of the Company.

10. IFRS 2, “Share-Based Payment – Vesting Conditions and Cancellations”, clarifies the vesting conditions that are to be reflected in the fair value as at the grant date, and explains the accounting treatment of instruments that have no vesting period and of cancellations. IFRS 2 shall apply to the financial statements of the Company for 2009. In the opinion of managemnet, at this point the standard is not anticipated to have an effect on the financial statements of the Company.

Note 3 - Cash and Cash Equivalents

	December 31 2007	December 31 2006
	$ thousands	$ thousands
U.S. dollars	**8,377**	6,746
Other currencies	**686**	523
	9,063	7,269

Note 4 - Marketable Securities

	December 31 2007	December 31 2006
	$ thousands	$ thousands
Mutual funds	**104**	112
Bonds	**3,020**	100
Preferred stocks 6.1% - 7%	**504**	202
	3,628	414

Note 5 - Short-Term Deposits

Deposits in dollars, bearing interest at an annual rate of approximately 5.1%.

Note 6 - Trade Accounts Receivable

	December 31 2007	December 31 2006
	$ thousands	$ thousands
Local	**177**	320
Abroad (mainly in dollars)	**4,100**	4,973
	4,277	5,293

Note 7 - Other Accounts Receivable

	December 31 2007	December 31 2006
	$ thousands	$ thousands
Government institutions	**-**	9
Prepaid expenses and sundry	**145**	59
	145	68

Note 8 - Inventory

	December 31 2007	December 31 2006
	$ thousands	$ thousands
Raw and packing material	**1,492**	1,619
Work-in-process	**185**	115
Finished products	**305**	210
	1,982	1,944

Note 9 - Other Investment

Represents the Company's share holdings in Champs Technologies Co. (hereinafter- Champs) (formerly: Payton Asia Planar Magnetics) of 10.7% (includes 3.74% held by a subsidiary Payton Planar Holdings (1996) Ltd.).

Note 10 - Property, Plant and Equipment, Net

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Improvements in leasehold	Land and Buildings	Total
	$ thousands					
December 31, 2007						
Cost						
Balance as of January 1, 2007	**1,616**	**105**	**496**	**360**	**-**	**2,577**
Acquisitions	**212**	**10**	**34**	**8**	**746**	**1,010**
Disposals	**-**	**(13)**	**(1)**	**-**	**-**	**(14)**
Balance as of December 31, 2007	**1,828**	**102**	**529**	**368**	**746**	**3,573**
Accumulated depreciation						
Balance as of January 1, 2007	**1,348**	**22**	**393**	**271**	**-**	**2,034**
Depreciation for the year	**113**	**16**	**48**	**30**	**-**	**207**
Disposals	**-**	**(5)**	**-**	**-**	**-**	**(5)**
Balance as of December 31, 2007	**1,461**	**33**	**441**	**301**	**-**	**2,236**
Carrying amounts as of December 31, 2007	**367**	**69**	**88**	**67**	**746**	**1,337**
December 31, 2006						
Cost						
Balance as of January 1, 2006	1,532	96	437	349	-	2,414
Acquisitions	84	29	64	11	-	188
Disposals	-	(20)	(5)	-	-	(25)
Balance as of December 31, 2006	1,616	105	496	360	-	2,577
Accumulated depreciation						
Balance as of January 1, 2006	1,224	27	359	242	-	1,852
Depreciation for the year	124	15	39	29	-	207
Disposals	-	(20)	(5)	-	-	(25)
Balance as of December 31, 2006	1,348	22	393	271	-	2,034
Carrying amounts as of December 31, 2006	268	83	103	89	-	543

Note 11 - Deferred Taxes

	Depreciable fixed assets	Carry-forward tax deductions and losses	Liabilities for employee severance benefits	Other	Total
			$ thousands		
Balance as at January 1, 2006	-	443	-	-	443
Changes in 2006	3	(370)	42	49	(276)
Balance as at December 31, 2006	3	73	42	49	167
Changes in 2007	**31**	**(73)**	**4**	**(7)**	**(45)**
Balance as at December 31, 2007	**34**	**-**	**46**	**42**	**122**

Note 12 - Trade Payables

	December 31 2007	December 31 2006
	$ thousands	$ thousands
Israeli suppliers	**429**	488
Foreign suppliers	**1,141**	1,069
Post-dated checks payable	**14**	23
	1,584	1,580

Note 13 - Other Payables

	December 31 2007	December 31 2006
	$ thousands	$ thousands
Employees and related benefits	**409**	521
Government institutions	**-**	262
Related parties	**1,242**	920
Other payables and accrued expenses	**357**	284
	2,008	1,987

Note 14 - Liability for Employee Severance Benefits, Net

A. Israeli labor laws and agreements require the Company to pay severance pay to dismissed or retiring employees (including those leaving their employment under certain other circumstances). The calculation of the severance pay liability was made in accordance with labor agreements in force and based on salary components which, in management's opinion, create entitlement to severance pay.

B. The Israeli company's severance pay liabilities to its employees are funded partially by regular deposits with recognized pension and severance pay funds in the employees' names and by purchase of insurance policies and are accounted for as defined benefit plans.

C. **Employees benefits are comprised as follows:**

	December 31 2007	December 31 2006
	$ thousands	$ thousands
Present value of defined benefit obligation	**371**	318
Fair value of plan assets	**(247)**	(124)
Recognized liability for defined benefit obligations	**124**	194

Liability for defined benefit obligations

The Group makes contributions to defined benefit plans that provide pension benefits for employees upon retirement.

Movements in the net liability recognized in the balance sheet

	For the year ended December 31	
	2007	2006
	$ thousands	$ thousands
Net liability at January 1	**194**	104
Expense recognized in the income statement	**(49)**	107
Exchange rate difference	**19**	9
Contribution paid and unfunded benefits paid	**(40)**	(26)
Net liability at 31 December	**124**	194

Note 14 - Liability for Employee Severance Benefits, Net (cont'd)

Expenses recognized in the income statement

Current service costs	**12**	27
Interest cost	**22**	9
Expected return on individual assets	**(8)**	(3)
Asset return expense	**1**	-
Excess severance paid	**-**	(5)
Present value of contributions	**10**	-
Net actuarial loss in the year	**(86)**	79
	(49)	107
The expense is recognized in the following line items in the income statement:		
Cost of sales	**(23)**	51
Development expenses	**(15)**	40
Selling and marketing expenses	**(1)**	4
Administrative expenses	**(10)**	12
	(49)	107
Actual return on plan assets	**11**	3

Principal actuarial assumptions:

a. The calculations are based on the following demographic assumptions about the future characteristics of current employees who are eligible for benefits:

i. Mortality rates are based on the pension circular 2000/1 of the Ministry of Finance, including 0.5% improvement per annum, as specified in that document.

ii. Disability rates are based upon the aforementioned document.

iii. The leave rate assumed has been based upon analysis of the Company's experience.

- The following rates were used for employees who leave with entitlement to benefits:

Years of service	Rate
0	0.0%
1 - 9	2.5%
10 +	1.0%

- The following rates were used for employees who leave without entitlement to benefits:

Years of service	Rate
0	5.0%
1 - 9	2.5%
10 +	1.0%

b. In view of the small size of the Company and the limited number of years experience currently available, these assumptions were felt to be reasonable. With the progress of time and the consequent accumulation of experience, these assumptions should be periodically reviewed.

Note 14 - Liability for Employee Severance Benefits, Net (cont'd)

Principal actuarial assumptions: (cont'd)

c. The calculations are based on the following financial assumptions:

i. The discount rate used is based on the yield of fixed-interest Israeli government bonds with duration equal to the duration of the gross liabilities:

Valuation Date	Discount Rate
December 31, 2007	**3.59%**
December 31, 2006	3.62%

ii. The future salary increase is assumed to be 3% p.a.

iii. The real rate of growth of the accrued balance in individual savings plans for policies issued before January 1, 2004 is assumed to be 0.0%. p.a. (this reflects the policy wording, which allocates earnings on the severance pay to the Tagmulim portion of the policy) and 3.0% net return for other policies.

iv. In the past, all assets were valued using a cash flow discounting approach. Starting in 2007, the Company's assets are registered using their nominal value. This change created an approximate actuarial net gain of US$78 thousand.

Note 15 - Investments in Subsidiary Companies

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2007:

A. Payton Planar Holdings (1996) Ltd. (hereinafter "Payton Holdings"):

The Company holds 89% of the equity of Payton Holdings (an Israeli company).
Payton Holdings holds 3.74% of the paid up share capital of Champs. (See Note 9).
Until December 31, 2006, the investment in Payton Holdings constitutes a loan given by the Company to Payton Holdings, which is linked to the CPI bearing interest at an annual rate of 2%.
On January 1, 2007, the loan was converted to a capital note which is not linked to the CPI and does not bear any interest.

B. Payton America Inc. (hereinafter "Payton America"):

During the year 1998, the Company, through its wholly-owned U.S. subsidiary, Payton America, acquired from Mr. Alex Estrov all the shares of MTC, another U.S. corporation, following which MTC merged into Payton America. Payton America manufactures and sells Planar transformers and inductors.

Note 16 - Commitments, Contingent Liabilities and Liens

A. The Company has a commitment for a monthly rent of about \$21 thousand and \$6 thousand for its premises in Israel up to 2014 and 2018 accordingly.

The subsidiary had a commitment for a monthly rent of about \$6 thousand for its premises in U.S. up to August 2007 with an option for additional three years. The subsidiary plans to vacate the property during 2008 and to move to the warehouse that was purchased in 2007. The future minimum rent as of December 31, 2007 is about \$39 thousand.

B. Regarding the right to convert a SARs agreement into a non-recurring commission that was granted to a bank - see Note 18B.

Note 17 - Financial Risk Management

Exposure to credit market, interest rate and currency risk arises in the normal course of the Group's business.

A. Credit risk

Credit risk is the risk of financial loss to the Group if a customer fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit evaluations are performed on all customers requiring credit over a certain amount. The Company has credit risk insurance for most of its customers exceeding a scope of operations of \$10 thousand per year. Approximately 40 percent of the Group's revenue is attributable to sales transactions with two principal customers

B. Market risk

Market risk is the risk in changes in market prices. The Company's exposure is mainly in the telecom market fluctuations and metal prices increase, especially copper, steel, tin and silver, which are part of the transformers bill of materials.

Note 17 - Financial Risk Management (cont'd)

C. Interest rate risk

Investments are made only in bank deposits and marketable securities held for trading. The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents and short-term deposits which are in U.S. dollars bearing interest rates given by banks of about 5.1% which changes from time to time.

D. 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 material. The Company does not use derivatives as a tool for hedging.

Linkage terms of monetary changes are as follows:

	In US$ or linked thereto	In NIS	In other foreign currency	Total
	US$ thousand			
December 31, 2007				
Cash and cash equivalents	**8,377**	**34**	**652**	**9,063**
Market securities	**3,628**	**-**	**-**	**3,628**
Deposits	**3,190**	**-**	**-**	**3,190**
Trade and other accounts receivable	**3,687**	**208**	**494**	**4,389**
	18,882	**242**	**1,146**	**20,270**
Trade and other payables	**1,537**	**2,022**	**24**	**3,583**
Current tax liability	**-**	**1,283**	**-**	**1,283**
Liability for employee severance benefits, net	**-**	**124**	**-**	**124**
	1,537	**3,429**	**24**	**4,990**
December 31, 2006				
Cash and cash equivalents	6,746	83	440	7,269
Market securities	414	-	-	414
Deposits	2,341	-	-	2,341
Trade and other accounts receivable	4,586	332	439	5,357
	14,087	415	879	15,381
Trade and other payables	1,582	1,943	33	3,558
Current tax liability	-	445	-	445
Liability for employee severance benefits, net	-	194	-	194
	1,582	2,582	33	4,197

Note 18 - Share Capital

A. Composition

	Number of shares		
	Authorized	Issued and paid	
	December 31, 2007 and 2006		
Ordinary shares of NIS 1 each	**20,000,000**	**17,670,775**	17,670,775

In June 1998 the Company completed an offering (on the Euro-NM) to the public of 5,150,000 ordinary shares comprising 29.26% of the Company's issued and outstanding share capital subsequent to such issue, in consideration for 360,500,000 BEF (before issue expenses) (December 31, 2007 and 2006: 29.14%). (See also Note 18B(1)).

B. Option plan

1) In 2001, the Company granted share appreciation rights (SARs) in the amount of $875 thousand to a bank at the exercise price of EURO 1.74 per share. The number of shares to be issued is determined based on the ratio between the value of the benefit and the share price on the exercise date.
The options are exercisable to shares until August 31, 2008.

Furthermore, the bank was granted the right to convert the above mentioned agreement into a non-recurring commission, under certain circumstances that are contingent on the occurrence of future events. The Company does not consider the occurrence of these contingent events as probable.

In November 2006 the bank gave notice of an exercise on net issuance of 50% of the SARs granted equal to 70,775 ordinary shares at the same date.

2) As at December 31, 2007, the Company's share market price is Euro 2 per share.

Note 19 - Income Statement Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2007	2006
	$ thousands	$ thousands
Export	**18,431**	20,931
Local	**526**	633
	18,957	21,564

Note 19 - Income Statement Data (cont'd)

A. Revenues (cont'd)

2. Principal customers

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

	For the year ended December 31	
	2007	**2006**
	%	**%**
Customer A*	**20**	13
Customer B	**20**	17

* During 2007 Customer A merged with a non-major customer of the Company.

B. Cost of sales

	For the year ended December 31	
	2007	**2006**
	$ thousands	**$ thousands**
Materials consumed*	**5,822**	6,002
Salaries and related benefits	**2,745**	3,217
Depreciation and amortization	**143**	152
Other manufacturing expenses	**783**	904
	9,493	10,275

* Includes inventory write-off of $12 thousand and $40 thousand for the years ended December 31, 2007 and 2006, respectively.

Includes purchases from a principal supplier (which makes up in excess of 10% of the purchases of the Company):

	For the year ended December 31	
	2007	**2006**
	%	**%**
Supplier A	**60**	52

C. Selling and marketing expenses

	For the year ended December 31	
	2007	**2006**
	$ thousands	**$ thousands**
Salaries and related benefits	**419**	399
Distribution commissions	**702**	760
Advertising and marketing	**89**	96
Exhibits and travel abroad	**146**	180
Other	**83**	30
	1,439	1,465

Note 19 - Income Statement Data (cont'd)

D. General and administrative expenses

	For the year ended December 31	
	2007	2006
	$ thousands	$ thousands
Salaries and related benefits	**419**	406
Office rent, maintenance and communications	**108**	110
Depreciation	**64**	55
Professional services	**93**	89
Management fee	**1,038**	1,034
Other	**241**	251
	1,963	1,945

E. Financial result

	For the year ended December 31	
	2007	2006
	$ thousands	$ thousands
Financing income		
Interest income from bank deposits	**511**	237
Income from marketable securities	**75**	17
Exchange rate differences	**-**	26
	586	280
Financing expenses		
Interest expense on bank loans	**-**	16
Bank charges and others	**32**	16
Exchange rate differences	**115**	-
Interest on transactions with parent company	**34**	24
	181	56

F. Transactions with related parties

	For the year ended December 31	
	2007	2006
	$ thousands	$ thousands
Selling and marketing	**244**	232
Management fees*	**1,038**	1,034
Financing expenses	**34**	24
Acquisition of fixed assets	**10**	-

Regarding balances with related parties - see Note 13.

* Management fees to the parent company are paid in respect of the salaries of the management, including the Chief Executive Officer, the production director and other senior workers, according to an agreement with the parent company (see Note 2M).

Note 20 - Income Taxes

A. Measurement of results for tax purposes under the Income Tax Law (Adjustments for Inflation) - 1985 (the "Adjustments Law")

In accordance with the Adjustments law, the results for tax purposes are measured in real terms, based on the changes in the CPI.

On February 26, 2008, the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Period of Application) - 2008 ("the Amendment") was passed by the Knesset. According to the Amendment, the Adjustments Law will no longer be applicable subsequent to the 2007 Tax Year, except for the transitional provisions whose objectives area to prevent distortion of the taxation calculations.

In addition, according to the amendment, commencing the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on protected assets and carryforward tax losses will no longer be linked to the Index, with these balances being adjusted to the Index through the end of the 2007 Tax Year, and linkage thereon ceasing from the 2008 Tax year onwards.

B. Amendment to the Income Tax Ordinance

On July 25, 2005, the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147 and Temporary Order) – 2005 (hereinafter – Amendment 147). The Amendment provides for a gradual reduction in the company tax rate in the following manner: in 2006 the tax rate will be 31%, in 2007 the tax rate will be 29%, in 2008 the tax rate will be 27%, in 2009 the tax rate will be 26% and from 2010 onward the tax rate will be 25%. Furthermore, as from 2010, upon reduction of the company tax rate to 25%, real capital gains will be subject to tax of 25%.

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

The Company currently qualifies as an “Industrial Company” under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a public offering, and to amortize know-how acquired from third parties.

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

In March 2005, the Knesset approved a reform of the Investment Law. The primary changes are as follows:

- Companies that meet the criteria of the Alternative Path of Tax benefit receive those benefits without prior approval. In addition, there is no requirement to file reports with the Investment Center. Audit takes place via the Income Tax Authorities as part of the tax audits. Request for pre-ruling is possible.
- For any expansion of investment, a company is required to invest within three years, additional production machinery and equipment as a certain percentage of its existing production machinery and equipment.

Note 20 - Income Taxes (cont'd)

D. Tax benefits under the Law for the Encouragement of Capital Investments - 1959 ("the Investment Law") (cont'd)

The Company is located in "Development Area A" and in "Other Area" (center of the country).
The principle tax benefits granted are:

a. Development Area A: Exemption from corporate tax for a period of 10 years or a reduced tax rate of 11.5% for the same period. (See "c" hereinafter)

b. Other Area: Exemption from corporate tax for two years and a reduced tax rate of 25% for the next five years.

c. In the event of distribution by the Company of a cash dividend out of retained earnings which were tax exempt due to its Privileged Enterprise status, the Company would have to pay a 25% corporate tax on the amount distributed, and a further 15% withholding tax would be deducted from the amounts distributed to the recipients.

d. Should the Company derive income from sources other than the "Privileged Enterprise" during the relevant period of benefits, such income will be taxable at regular corporate tax rates.

E. Final tax assessments

The Company's final income tax assessments up to and including the 2002 tax year are considered to be final.

F. Income taxes recognized in the income statement

	For the year ended December 31	
	2007	**2006**
	$ thousands	**$ thousands**
Current taxes	**929**	445
Deferred tax expense (see Note 11)	**45**	276
	974	721

Note 20 - Income Taxes (cont'd)

G. Reconciliation of effective tax rate

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	
	2007	2006
	$ thousands	$ thousands
Tax rate	**29%**	31%
Profit before tax	**5,886**	7,564
Income tax using the domestic corporations tax rate	**1,707**	2,345
Additional tax in respect of foreign subsidiaries	**63**	16
Non-deductible expenses and tax exempt income, net	**(53)**	3
Effect of tax losses utilized	**-**	(995)
Tax exempt income due to Approve Enterprise status	**(317)**	(315)
Differences in basis of measurement for financial reporting and for tax purposes	**(414)**	(141)
Others	**(12)**	(192)
	974	721

Note 21 - Earnings per Share

Basic earnings per share

The calculation of basic and diluted earnings per share at December 31, 2007 was based on the net profit attributable to ordinary shareholders of $4,912 thousand (2006: $6,843 thousand) and a weighted average number of ordinary shares outstanding of 17,671 thousand (2006: 17,606 thousand) calculated as follows:

Net profit attributable to ordinary shareholders:

	For the year ended December 31	
	2007	2006
	$ thousands	$ thousands
Profit for the year	**4,912**	6,843
Profit attributable to ordinary shareholders	**4,912**	6,843

Note 21 - Earnings per Share (cont'd)

Weighted average number of ordinary shares (basic)
In thousands of shares

	December 31	
	2007	**2006**
Issued ordinary shares at January 1	**17,671**	17,600
Effect of shares issued in December 2006	**-**	6
Weighted average number of ordinary shares at December 31	**17,671**	17,606

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2007 was based on profit attributable to ordinary shareholders of $4,912 thousand (2006: $6,843 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 17,671 thousand (2006: 17,611 thousand), calculated as follows:

Weighted average number of ordinary shares (diluted)
In thousands of shares

	December 31	
	2007	**2006**
Weighted average number of ordinary shares (basic)	**17,671**	17,606
Effect of share options on issue	**-**	5
Weighted average number of ordinary shares (diluted) at December 31	**17,671**	17,611

Note 22 - Segment Reporting

Geographical - location of customers

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

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

Segment results, assets and liabilities include items directly attributed to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly interest-bearing loans and corporate assets.

No business segment information is required as the Company operates on a single business segment - Planar transformers.

Note 22 - Segment Reporting (cont'd)

Geographical - location of customers

	For the year ended December 31, 2007			
	Europe and Israel (mainly Europe)	America	Asia	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Segment revenues	**6,040**	**4,096**	**8,821**	**18,957**
Segment result	**1,746**	**1,184**	**2,551**	**5,481**
Net financial result				**405**
Income taxes				**(974)**
Net profit for the year				**4,912**
Segment assets	**2,853**	**1,814**	**3,073**	**7,740**
Unallocated assets				**16,352**
Total assets				**24,092**
Segment liabilities	**1,677**	**1,053**	**2,260**	**4,990**
Unallocated liabilities				**9**
Total liabilities				**4,999**
Segment depreciation and amortization	**66**	**45**	**96**	**207**
Segment capital expenditure	**265**	**745**	**-**	**1,010**

Note 22 - Segment Reporting (cont'd)

Geographical - location of customers (cont'd)

	For the year ended December 31, 2006			
	Europe and Israel (mainly Europe)	America	Asia	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Segment revenues	7,989	4,548	9,027	21,564
Segment result	2,718	1,547	3,071	7,336
Net financial result				224
Other income				4
Income taxes				(721)
Net profit for the year				6,843
Segment assets	2,989	830	4,029	7,848
Unallocated assets				10,539
Total assets				18,387
Segment liabilities	1,678	844	1,675	4,197
Unallocated liabilities				9
Total liabilities				4,206
Segment depreciation and amortization	77	44	86	207
Segment capital expenditure	182	6	-	188

Note 23 - Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1. Deferred tax assets

The Group recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and in adverse impact on operating results.

2. Pension benefits

This applies where the Group's accounting policy is to recognize any actuarial gains or losses immediately through the income statement.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the expected long-term rate of return on the relevant plan's assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of fixed interest Israeli government bonds with duration equal to the duration of the liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 14.

3. Allowance for doubtful accounts

The financial statements include specific provisions for doubtful debts, which, in management's opinion, adequately reflect the loss included in those debts whose collection is doubtful. Doubtful debts, which according to management's opinion are unlikely to be collected, are write-off from the Company's books, based on a management resolution. Management's determination of the adequacy of the provision is based on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business, an evaluation of the security received from them and past experience.
As at December 31, 2007 and 2006 no allowance was recorded. (See also Note 17A).