Payton Planar Magnetics Ltd.

Annual Report 2014

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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, 2014

***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 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"), Himag Planar Magnetics Ltd.("Himag") and Payton Planar Holdings (1996) Ltd. ("Payton Holdings").

B. The Group's main fields of activity and changes that occurred in the period from January to December 2014

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.

Real-estate property - The establishment of a real-estate property, centralizing the local group activities ("Payton House") was completed in September 2013.
Management believes that having all facilities "under one roof" in the new building will lead to economies of scale and also offer opportunities for synergies between product lines.
The Company moved two out of its three locations into the new facility in May 2013 and in September 2013 the Company completed the last phase of the transfer.
During the whole year of 2014 the new facility was fully operational.

No material changes occurred during the period from January 1st to December 31th, 2014.

[1] The financial statements as at December 31, 2014 form an integral part thereof.

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. In addition, during 2014, the Company operated to expand its activity in: UK, North America, Japan, China and S. Korea.
Sales for the year ended December 31, 2014 amounted to USD 25,327 thousand compared with USD 20,021 thousand for the year ended December 31, 2013. The sales in 2014 were mostly affected from a ramp up in few maturing projects.

Revenues for the year ended 2014 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).

	For the year ended December 31	**For the year ended December 31**
	2014	**2013**
Customer A	16%	*

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

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

Nowadays market fluctuations are very rapid and unpredictable, therefore 2015 trend is very hard to foresee. The economy in Europe seems to keep slowing down; however, the U.S. economy is catching up.
The challenge in this global economy is to catch up increasing demands, raise productivity, address and develop new markets and to expand the group's core business.

Along with the above-mentioned global fluctuations, there are additional effects in Israel, generated from large fluctuations in the exchange rates of the main currencies vis-à-vis the NIS.

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 the necessary actions in order to cope with the situation, to the greatest extent possible.

As 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 is participating in most leading electronic exhibitions. During 2014 the Group participated in

- APEC in Dallas, USA (March, 2014), PCIM Europe 2014 Exhibition, Nuremberg, Germany (May, 2014), New-Tech Exhibition, Tel-Aviv, Israel (May, 2014), Electronica Exhibition, Munich, Germany (November, 2014) and others.
- In addition, during 2014, the Company initiated several seminars and conferences in the USA.

During 2014 the Company put intense focus to UK, China, Japan, North America and S. Korea markets.

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 maintain and also 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 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 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 and Purchase Backlog

As at December 31, 2014 this backlog amounted to USD 10,378 thousand, and as of February 22, 2015 to USD 10,421 thousand (December 31, 2013 - USD 9,408 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 31.12.14 will be supplied until the end of September 2015.
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 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 2014, the Group employed 188 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 ISO9001:2008 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 ISO14001:2004 (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 - TS16949:2009 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.
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 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 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 extend its core business with synergetic product lines.

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

M. Coming year outlook

In the coming year (2015) Payton plans to continue the integration and improving the efficiency of Himag business activity in UK in order to maximize its added value to the Group.

Furthermore, during 2015 the Group plans to continue its regular course of business and maximize the business challenge to the greatest possible extent. It will go on with its marketing efforts aiming to expand products exposure and enlarging market share.

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

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

N. Risk Factors

	Major Impact	Medium Impact	Small Impact
Macro Risks		▪ 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. ▪ Evaluation of the local Israeli currency reflects an increase in labor costs and other operating costs.	▪ Currency exposure during credit term period with regards to invoices issued in local currency.
Market Risks		▪ Metals prices fluctuations especially: Copper, Steel, Tin and Silver, which are part of the transformers bill of materials.	
Specific Risks		▪ Manufacturing partners dependency.	

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, 2014

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 15,347 thousand as at December 31, 2014 compared to USD 12,996 thousand as at December 31, 2013.

It is noted that, deposits at the amount of USD 1,005 thousand, as at December 31, 2014 and USD 3,002 thousand, as at December 31, 2013, were classified as Long-term deposits, and as such presented under the non-current assets.

Trade accounts receivable - these amounted to USD 5,919 thousand as at December 31, 2014 compared to USD 4,030 thousand as at December 31, 2013. The increase in this item is explained mostly by sales volume increase in the period near the report date.

Intangible assets - the carrying amount of these assets amounted to USD 1,007 thousand as at December 31, 2014 compared to USD 1,134 thousand as at December 31, 2013.

- An amount of USD 198 thousand (year ended December 31, 2013: USD 286 thousand) arises from the surplus on the investment in Payton Technologies business activity. The fair value of the intangible assets in this acquisition was valuated at the acquisition by a Purchase Price Allocation ("PPA") that was conducted by an independent business appraiser. The surplus on the investment was allocated to: production files, open orders and goodwill.
- An amount of USD 809 thousand (year ended December 31, 2013: USD 848 thousand) arises from the intangible assets recognized as a result of the acquisition of the business activity of Himag Solutions, including: goodwill, production files and brand name rights. The fair value of these intangible assets have been determined based on a Purchase Price Allocation (“PPA”) prepared by an external independent appraiser.

Trade payables - amounted to USD 2,991 thousand as at December 31, 2014 compared to USD 2,351 thousand as at December 31, 2013. The increase in this item results mainly from increase in liability to sub-contractors manufacturers, explained by the increase in business activity near the report date.

Liabilities to bank and others (Current & Non-current Liabilities) - amounted to a total of USD 2,132 thousand as at December 31, 2014 compared to USD 3,564 thousand as at December 31, 2013. As at December 31, 2014 these liabilities comprised of a 10 year bank loan in the amount of USD 1,770 thousand (out of which USD 230 thousand are presented as current liabilities) against a mortgage on the real estate property, repayable in monthly payments starting November 2012. The bank loan was taken in order to finance part of the industrial property construction costs. In December 2014, the Company used its option to make a prepayment of USD 1 million out of this loan with no penalty. Additional USD 362 thousand (out of which USD 159 thousand are presented as current liabilities) represents the contingent consideration against the purchase of Himag Solutions Ltd.

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 and long-term bank deposits. These balances are mostly held in USD bearing interest rates given by banks (interest rate - about 1%), 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 periods were in USD or were linked to the USD. Approximately 14% of the Group's sales were in Euro.

Approximately 96% of the costs of raw material and finished goods purchased by the Group during the reported period were in USD or were linked to the USD.

Approximately 80% of the Group's salaries during the reported year ended December 31, 2014 were in New Israeli Shekel ("NIS"), 20% were in USD and 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") with regards to labor costs, other operating 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. 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

During 2014 the Company slightly used derivatives as a tool for hedging, especially in order to hedge 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 quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Total 2014	Total 2013	Quarter 10-12/14	Quarter 7-9/14	Quarter 4-6/14	Quarter 1-3/14
Sales revenues	25,327	20,021	7,943	6,223	5,866	5,295
Cost of sales	16,746	13,856	5,355	4,133	3,682	3,576
Gross profit	*8,581*	*6,165*	*2,588*	*2,090*	*2,184*	*1,719*
Development costs	(939)	(913)	(213)	(222)	(278)	(226)
Selling & marketing expenses	(2,019)	(1,932)	(515)	(464)	(526)	(514)
General & administrative expenses	(2,979)	(2,804)	(781)	(786)	(723)	(689)
Other (expenses) income	(15)	(475)	(11)	(2)	(2)	-
Operating income	*2,629*	*41*	*1,068*	*616*	*655*	*290*
Finance (expenses) income, net	(140)	135	(23)	(88)	(18)	(11)
Profit before income taxes	*2,489*	*176*	*1,045*	*528*	*637*	*279*
Income taxes	(478)	(63)	(209)	(91)	(128)	(50)
Net profit for the period	*2,011*	*113*	*836*	*437*	*509*	*229*
Other comprehensive income items that will not be transferred to profit &loss						
Remeasurement of defied benefit plan	142	(19)	242	-	(100)	-
Total other comprehensive income (loss)	142	(19)	242	-	(100)	-
Total comprehensive income for the period	*2,153*	*94*	*1,078*	*437*	*409*	*229*

General Note: The Group is exposed to erosion of the USD in relation to the NIS and to the Euro. Most of the Group's salaries and other operating costs are fixed in NIS. Revaluation of the local Israeli currency drives to an increase in labor costs and other operating costs, thus, negatively affects the operating results of the Company. The average rate of the USD with relation to the NIS, during 2014, went down by 1% compared to average rate of year 2013, reflecting an increase in the above-mentioned costs when they are presented in USD. (It is noted that: During the forth quarter of 2014 the average rate of the USD with relation to the NIS went up by 7% compared to average rate of year 2014, reflecting a decrease in the above-mentioned costs when they are presented in USD).
About 14% of the Group's sales in 2014 were in Euro. Revaluation of the U.S. Dollar with relation to the Euro has an influence on the Group's gross margin.

***Sales revenues* -** The Group's sales revenues for year 2014 were USD 25,327 thousand compared with USD 20,021 thousand in year 2013, a significant increase of 27%. The increase in sales in 2014 was mainly as a result of the ramp up of a few maturing projects.

***Gross profit* -** The Group's gross results for the year ended December 31, 2014 were USD 8,581 thousand (34%), compared with USD 6,165 thousand (31%), in the year ended December 31, 2013. The increase in the gross profit relates mainly from optimizing production efficiency.

***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, 2014 were USD 939 thousand compared with USD 913 thousand in the year ended December 31, 2013.

***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, 2014 amounted to USD 2,019 thousand compared with USD 1,932 thousand in the year ended December 31, 2013. It is noted that part of the sales are done directly by the company as "house" account (without a rep' assistance), which explains why the increase in these expenses is not directly proportional to the sales increase

***General& Administrative expenses* -** The Group's General & Administrative expenses for the year ended December 31, 2014 amounted to USD 2,979 thousand compared with USD 2,804 thousand in the year ended December 31, 2013. The increase in G&A expanses is mostly explained by increase in maintenance cost during year 2014 of the new Payton facility and by increase in management incentives derived from the profits increase.

Other expenses, net - Other expenses for the year ended December 31, 2014 amounted to USD 15 thousand compared with USD 475 thousand in the year ended December 31, 2013.
In 2013, an amount of USD 206 thousand out of these expenses arise from the transfer to the new facility, and an amount of USD 222 thousand represented the increase in contingent consideration stemming from the purchase of Himag Solutions business activity.

Finance (expenses) income, net - The Group's Finance expenses for the year ended December 31, 2014 amounted to USD 140 thousand compared with a finance income of USD 135 thousand in the year ended December 31, 2013. The decrease in these income resulted mainly from exchange rate differences.

***Income Taxes* -** tax expenses for the year ended December 31, 2014 amounted to USD 478 thousand compared with USD 63 thousand for the year ended December 31, 2013. The increase in tax expenses resulted mainly from the profits increase.

Information regarding - Transactions with related parties *(pursuant to note 19 G to the Consolidated Financial Statements as at December 31, 2014)*

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Management fees and related benefits to David Yativ, Technologies and Management*	548	456
Financing expenses (income) to the Parent Company	8	(11)
Fees to directors	34	33
Short-term employee benefits (2014, 2013: 5 personnel)	632	585
Post-employment benefits (2014, 2013: 5 personnel)	5	120

* Management fees and related benefits to David Yativ, Technologies and Management Ltd. (see Note 16B) include an amount of USD 130 thousand (year ended December 31, 2013: USD 126 thousand) allocated as selling and marketing expenses.

Information regarding - Balances with related parties *(pursuant to note 19 G to the Consolidated Financial Statements as at December 31, 2014)*

	December 31 2014	**December 31 2013**
	$ thousands	**$ thousands**
Included in other accounts receivable:		
The Parent Company	99	250
Included in other payables:		
David Yativ, Technologies and Management	127	43
Directors not employed by the Company	8	9

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, 2014	**December 31, 2013**
Current ratio[2]	5.30	5.16
Quick ratio[3]	4.57	4.38

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

B. Operating activities

Cash flows generated from operating activities for the year ended December 31, 2014 amounted USD 2,500 thousand, compared with the cash flows generated from operating activities of USD 1,603 thousand for the year ended December 31, 2013. The increase in this cash flows resulted mainly from the profit increase, from the tax refund and from other changes in the working capital.

C. Investing activities

Cash flows used for investing activities in the year ended December 31, 2014 amounted USD 2,080 thousand compared with cash flows used for investing activities of USD 3,140 thousand in the year ended December 31, 2013.

During the year 2014 the cash flows were used mostly for investment in short-term and long-term bank deposits.

D. Financing activities

Cash flows used for financing activities in the year ended December 31, 2014 amounted USD 1,496 thousand compared with cash flows used for financing activities of USD 323 thousand in the year ended December 31, 2013. In December 2014, the Company used its option to make a prepayment (with no penalty), of USD 1 million, out of the originally 10 year bank loan (taken on October 2012).

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from a long term bank loan taken on Oct. 2012 (see also note 11 to the consolidated financial statements).

5. External factors effects

Revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Company's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are being affected.

Devaluation of the Euro(€) and Pound(£) in relation to the U.S. Dollar leads to a decrease in Group's assets in those currencies.

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

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

Pursuant to article 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, 2014 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 extand its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

Ness-Ziona, February 26, 2015.

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

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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 statement of financial position as at December 31, 2014, the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2014, and its consolidated financial performance 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)

February 26, 2015

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Consolidated Statements of Financial Position as at December 31

	Note	2014 $ thousands	2013 $ thousands
Current assets			
Cash and cash equivalents	4	**4,692**	5,883
Short-term deposits	5	**10,447**	6,133
Marketable securities held for trading	6	**208**	980
Trade accounts receivable	7	**5,919**	4,030
Other accounts receivable	7	**422**	447
Current tax assets		**295**	500
Inventory	8	**3,533**	3,218
Total current assets		**25,516**	21,191
Non-current assets			
Long-term deposits	5	**1,005**	3,002
Fixed assets	9	**12,084**	12,583
Intangible assets	10	**1,007**	1,134
Deferred taxes	20	**33**	160
Total non-current assets		**14,129**	16,879
Total assets		**39,645**	38,070

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

Date of approval of the financial statements: February 26, 2015

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

	Note	2014 $ thousands	2013 $ thousands
Liabilities and equity			
Current liabilities			
Liabilities to bank and others	11	**389**	503
Trade payables	12	**2,991**	2,351
Other payables	13	**1,075**	903
Employee benefits	14	**358**	348
Total current liabilities		**4,813**	4,105
Non-current liabilities			
Liabilities to bank and others	11	**1,743**	3,061
Employee benefits	14	**313**	495
Deferred tax liabilities	20	**214**	-
Total non-current liabilities		**2,270**	3,556
Equity			
Share capital	18	**4,836**	4,836
Share premium		**8,993**	8,993
Retained earnings		**18,733**	16,580
Total equity		**32,562**	30,409
Total liabilities and equity		**39,645**	38,070

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	Note	2014 $ thousands	2013 $ thousands
Revenues	19A	**25,327**	20,021
Cost of sales	19B	**(16,746)**	(13,856)
Gross profit		**8,581**	6,165
Development costs		**(939)**	(913)
Selling and marketing expenses	19C	**(2,019)**	(1,932)
General and administrative expenses	19D	**(2,979)**	(2,804)
Other expenses	19E	**(15)**	(475)
Operating profit		**2,629**	41
Finance income	19F	**131**	261
Finance expenses	19F	**(271)**	(126)
Finance (expenses) income, net		**(140)**	135
Profit before income taxes		**2,489**	176
Income taxes	20	**(478)**	(63)
Profit for the year		**2,011**	113
Other comprehensive income items that will not be transferred to profit and loss			
Remeasurement of defined benefit plan, net of taxes	14	**142**	(19)
Total other comprehensive income (loss)		**142**	(19)
Total comprehensive income for the year		**2,153**	94
Basic earnings per ordinary share (in $)	21	**0.11**	0.01

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	Retained	
	Number of shares	$ thousands	premium $ thousands	earnings $ thousands	Total $ thousands
Balance at January 1, 2013	17,670,775	4,836	8,993	16,486	30,315
Total comprehensive income for the year					
Profit for the year	-	-	-	113	113
Other comprehensive loss	-	-	-	(19)	(19)
Total comprehensive income for the year	-	-	-	94	94
Balance at December 31, 2013	17,670,775	4,836	8,993	16,580	30,409
Total comprehensive income for the year					
Profit for the year	**-**	**-**	**-**	**2,011**	**2,011**
Other comprehensive income	**-**	**-**	**-**	**142**	**142**
Total comprehensive income for the year	**-**	**-**	**-**	**2,153**	**2,153**
Balance at December 31, 2014	**17,670,775**	**4,836**	**8,993**	**18,733**	**32,562**

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

Consolidated Statements of Cash Flows for the year ended December 31

	Note	2014 $ thousands	2013 $ thousands
Operating activities			
Profit for the year		**2,011**	113
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation and amortization	9, 10	**1,021**	846
Income taxes	20	**478**	63
Capital loss on sale of fixed assets	19E	**3**	47
Changes in the fair value of contingent consideration	17E	**12**	222
Finance expenses (income), net	19F	**158**	(95)
Increase in employee benefits	14	**5**	89
Increase in trade accounts receivable	7	**(1,889)**	(511)
Decrease in other accounts receivable	7	**25**	22
(Increase) decrease in inventory	8	**(315)**	411
Increase in trade payables	12	**823**	725
Increase in other payables	13	**172**	24
Interest received	19F	**102**	124
Interest paid	19F	**(118)**	(83)
Tax paid	20	**(417)**	(394)
Tax received	20	**429**	-
Cash flows generated from operating activities		**2,500**	1,603
Investing activities			
Proceeds from sale of marketable securities held for trading	6	**772**	205
(Investment in) proceeds from short-term deposits, net	5	**(1,271)**	4,693
Investment in long-term deposits	5	**(1,000)**	(3,000)
Investment in fixed assets	9	**(608)**	(5,048)
Proceeds from sale of fixed assets	9	**27**	10
Cash flows used for investing activities		**(2,080)**	(3,140)
Financing activities			
Repayment of loan	11	**(1,353)**	(323)
Payment of contingent consideration	11	**(143)**	-
Cash flows used for financing activities		**(1,496)**	(323)
Net decrease in cash and cash equivalents		**(1,076)**	(1,860)
Cash and cash equivalents at beginning of the year		**5,883**	7,684
Effect of exchange rate fluctuations on cash held		**(115)**	59
Cash and cash equivalents at end of the year		**4,692**	5,883

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

Note 1 - General

A. Reporting entity

Payton Planar Magnetics Ltd. (“the Company”) was incorporated in December 1992. In May 2013 the Company moved to its new premises located at 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. In June 1998, the Company completed its initial public offering in the Euro NM.

The consolidated financial statements of the Group as at and for the year ended December 31, 2014 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 in 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.

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 February 26, 2015.

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;
* Inventory measured at the lower of cost and net realizable value;
* 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.

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. Further information about the assumptions that were used to determine fair value is included in Note 17, on financial instruments.

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).

Change in estimates

During 2014, a thorough economic study was performed by renowned economists, at the request of Israeli regulator (hereinafter: "the study"). According to the study a deep market for high quality corporate debentures exists in Israel, and therefore a defined benefit obligation and other long-term benefits that are shekel-denominated or shekel-linked are to be discounted according to an interest rate derived from an interest curve based on the yield rate of high quality corporate debentures in accordance with IAS 19, *Employee Benefits*. The transition from using the yield rate of government debentures to using the yield rate of high quality corporate debentures was applied prospectively.
In 2014 there was a decrease in the risk-free interest rate that reduced the effect of the transition to an interest curve based on yield rates of high quality corporate debentures. The effects of the change in the discount rate as compared with the discount rate determined at the end of last year are a decrease in the defined benefit obligation and an adjustment in deferred tax balances as at December 31, 2014 in the amount of USD 177 thousand and USD 35 thousand, respectively, that were recognized against other comprehensive income. Of those amounts a decrease of USD 268 thousand and USD 54 thousand in the defined benefit obligation and the deferred tax balances, respectively, derives from the change in the discount rate from an end-of-period rate that is based on government debentures to a rate that is based on high quality corporate debentures (the difference at the end of the period between the discount rate based on corporate debentures and the discount rate based on government debentures is 1.46%).

The effect of these changes on interest cost in 2015 is a decrease of USD 13 thousand which will be presented under salaries expenses.

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.

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. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

B. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currency of Group entities 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.

Note 3 - Significant Accounting Policies (cont'd)

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 investments in equity and debt securities, trade and other receivables 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.

Classification of financial assets into categories and the accounting treatment of each category

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

Financial assets at fair value through profit or loss
A financial asset is classified at fair value through profit or loss if it is classified as held for trading. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

2. Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: loan from bank, 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 plus 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

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.

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.

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 leasess	70 years	

Leasehold improvements are depreciated over the shorter of the lease period or the useful life of the leasehold improvement.

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.

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

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.

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

- Production files 5 years
- Order and purchase backlog 0.5 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.

Note 3 - Significant Accounting Policies (cont'd)

F. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the **first-in first-out (FIFO)** principle and 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. Capitalization of borrowing costs

Specific borrowing costs are capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Income earned on the temporary investment of specific credit received for investing in a qualifying asset is deducted from the borrowing costs eligible for capitalization.

H. 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 disappearance of an active market for a security.

The Group considers evidence of impairment for receivables at a specific asset level. All individually significant loans and receivables are assessed for specific impairment. 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.

Note 3 - Significant Accounting Policies (cont'd)

H. 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 current market assessments of 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. 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.

I. 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. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

Note 3 - Significant Accounting Policies (cont'd)

I. Employee benefits (cont'd)

1. Post-employment benefits (cont'd)

(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 shekel-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.

When as part of a minimum contribution requirement, there is an obligation to pay additional amounts for services that were provided in the past, the Company recognizes an additional obligation (increases the net liability or decreases the net asset), if such amounts are not available as an economic benefit in the form of a refund from the plan or the reduction of future contributions.

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.

Note 3 - Significant Accounting Policies (cont'd)

I. 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.

In the statement of financial position the employee benefits are classified as short-term benefits or as other long-term benefits according to the time the liability is due to be settled.

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.

J. 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.

K. Development costs

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

Note 3 - Significant Accounting Policies (cont’d)

L. 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.

Other leases are classified as operating leases, and the leased assets are not recognized on the Group’s statement of financial position.

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

M. Transactions with controlling shareholder

Transactions with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.

N. Financing income and expenses

Financing income comprises interest income on funds invested, dividend income 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. Dividend income is recognized on the date that the Group’s right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Changes in the fair value of financial assets at fair value through profit or loss also include income from dividends and interest.

Financing expenses comprise interest expenses on borrowings, 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).

Borrowing costs, which are not capitalized to qualifying assets, are recognized in profit or loss using the effective interest method.

In the statement of cash flows, interest received and dividends received are presented as part of cash flows from operating activities. Interest paid is presented as part of cash flows from operating activities. Financing costs that were capitalized to qualifying assets are presented as part of cash flows from investing activities, together with the investment in fixed assets.

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.

Note 3 - Significant Accounting Policies (cont'd)

O. 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 equity or in other comprehensive income to the extent they relate to items recognized directly in equity or in other comprehensive income.

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.

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.

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

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.

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.

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.

Note 3 - Significant Accounting Policies (cont'd)

P. New standards and interpretations not yet adopted

(1) IFRS 9 (2014), *Financial Instruments*

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 has been added to the chapter dealing with general hedge accounting requirements 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 with early adoption being permitted. It will be applied retrospectively with some exemptions.

The Group is examining the effects of IFRS 9 (2014) on the financial statements with no plans for early adoption.

Note 3 - Significant Accounting Policies (cont'd)

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

(2) IFRS 15, *Revenue from Contracts with customers*

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.

IFRS 15 is applicable for annual periods beginning on or after January 1, 2017 and earlier application is permitted. IFRS 15 includes various alternative transitional provisions, so that companies can choose between one of the following alternatives at initial application: full retrospective application, full retrospective application with practical expedients, or application as from the mandatory effective date, with an adjustment to the balance of retained earnings at that date in respect of transactions that are not yet complete.

The Group is examining the effects of adopting IFRS 15 on the financial statements with no plans for early adoption.

Note 4 - Cash and Cash Equivalents

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Bank balances	**2,724**	4,918
Call deposits	**1,968**	965
	4,692	5,883

The Group's exposure to interest rate and currency risks concerning cash and cash equivalents is disclosed in Note 17 on financial instruments.

Note 5 - Deposits

Short term deposits

Short term deposits in dollars, bearing interest at an annual rate of approximately 0.66% - 1.18% (December 31, 2013: 0.7% - 1%).

Long term deposits

Long term deposits in dollars bearing interest at an annual rate of 1.35% (December 31, 2013: 1.15%-1.18%).

The Group's exposure to interest rate and currency risks concerning deposits is disclosed in Note 17 on financial instruments.

Note 6 - Marketable Securities Held for Trading

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Mutual funds	**5**	449
Bonds	**-**	254
Preferred stocks 6.6%	**203**	277
	208	980

The Group's exposure to interest rate and currency risks and a sensitivity analysis for financial assets are disclosed in Note 17 on financial instruments.

Note 7 - Trade and Other Accounts Receivable

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Trade accounts receivable		
Open accounts	**5,906**	4,011
Checks payables	**20**	23
	5,926	4,034
Less provision for doubtful debts	**(7)**	(4)
	5,919	4,030
Other accounts receivable		
Government institutions	**34**	1
Related parties	**99**	250
Other receivables	**289**	196
	422	447

The Group's exposure to credit and currency risks concerning trade and other accounts receivable is disclosed in Note 17 on financial instruments.

Note 8 - Inventory

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Raw and packing material	**2,367**	2,302
Work-in-process	**178**	230
Finished products	**988**	686
	3,533	3,218

Note 9 - Fixed Assets

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Leasehold improvements	Land and Buildings	Total
	$ thousands					
December 31, 2014						
Cost						
Balance as of January 1, 2014	**2,140**	**331**	**855**	**110**	**11,214**	**14,650**
Acquisitions	**182**	**121**	**91**	**-**	**31**	**425**
Disposals	**(7)**	**(40)**	**-**	**-**	**(4)**	**(51)**
Balance as of December 31, 2014	**2,315**	**412**	**946**	**110**	**11,241**	**15,024**
Accumulated depreciation						
Balance as of January 1, 2014	**1,163**	**123**	**299**	**72**	**410**	**2,067**
Depreciation for the year	**284**	**52**	**139**	**7**	**412**	**894**
Disposals	**(6)**	**(14)**	**-**	**-**	**(1)**	**(21)**
Balance as of December 31, 2014	**1,441**	**161**	**438**	**79**	**821**	**2,940**
Carrying amounts as of December 31, 2014	**874**	**251**	**508**	**31**	**10,420**	**12,084**
Carrying amounts						
January 1, 2014	**977**	**208**	**556**	**38**	**10,804**	**12,583**
December 31, 2014	**874**	**251**	**508**	**31**	**10,420**	**12,084**

Note 9 - Fixed Assets (cont'd)

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Leasehold improvements	Land and Buildings	Total
	$ thousands					
December 31, 2013						
Cost						
Balance as of January 1, 2013	3,152	325	917	420	6,901	11,715
Acquisitions	348	25	532	13	4,313	5,231
Disposals	(1,360)	(19)	(594)	(323)	-	(2,296)
Balance as of December 31, 2013	2,140	331	855	110	11,214	14,650
Accumulated depreciation						
Balance as of January 1, 2013	2,240	84	750	387	144	3,605
Depreciation for the year	258	50	119	8	266	701
Disposals	(1,335)	(11)	(570)	(323)	-	(2,239)
Balance as of December 31, 2013	1,163	123	299	72	410	2,067
Carrying amounts as of December 31, 2013	977	208	556	38	10,804	12,583
Carrying amounts						
January 1, 2013	912	241	167	33	6,757	8,110
December 31, 2013	977	208	556	38	10,804	12,583

A. Real Estate Property

In 2011 the Company purchased a real-estate property in Israel, the carrying amount of which as at December 31, 2014 is USD 9,671 thousand. The property is 4,500 square meters and located in the central area of Israel. During 2013 the establishment of the real-estate property, centralizing the Company's activities, was completed and in May 2013 the Company moved to its new premises.

Until the completion of the establishment, borrowing costs in the amount of USD 75 thousand were capitalized to the real-estate property cost.

In October 2012, the Company took a bank loan against a mortgage on the real estate property (see Notes 11 and 16D).

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

The land on which the property described in A above was built, has a carrying amount of USD 1,368 thousand as at December 31, 2014 (December 31, 2013: USD 1,389 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.

Note 9 - Fixed Assets (cont'd)

C. Acquisition of fixed assets on credit

During the year ended December 31, 2014, the Company acquired fixed assets on credit in the amount of USD 27 thousand (December 31, 2013: USD 210 thousand).

D. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2014 the original cost of such assets is USD 601 thousand (December 31, 2013: USD 494 thousand).

In 2013 the Group derecognized fixed assets with original cost of USD 2,116 thousand that had been fully depreciated and are no longer used by the Group.

Note 10 - Intangible Assets

	Production files	Brand name	Non-competition agreement	Goodwill	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost					
Balance as at January 1, 2014 and December 31, 2014	**536**	**71**	**11**	**731**	**1,484**
Amortization					
Balance as at January 1, 2014	195	18	2	-	350
Amortization for the year	**107**	**18**	**2**	**-**	**127**
Balance as at December 31, 2014	**302**	**36**	**4**	**-**	**477**
Carrying amounts					
January 1, 2014	341	53	9	731	1,134
December 31, 2014	**234**	**35**	**7**	**731**	**1,007**

Note 10 - Intangible Assets (cont'd)

	Production files	Order and Purchase backlog	Brand name	Non-competition agreement	Goodwill	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost						
Balance as at January 1, 2013 and December 31, 2013	536	135	71	11	731	1,484
Amortization						
Balance as at January 1, 2013	88	117	-	-	-	205
Amortization for the year	107	18	18	2	-	145
Balance as at December 31, 2013	195	135	18	2	-	350
Carrying amounts						
January 1, 2013	448	18	71	11	731	1,279
December 31, 2013	341	-	53	9	731	1,134

A. Impairment testing for cash-generating units containing goodwill

Goodwill is allocated to the following cash-generating units:

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Payton Planar Israeli operations	**22**	22
Himag Planar Solutions Ltd. (1)	**709**	709
	731	731

(1) The recoverable amount of Himag Planar Solutions Ltd. (hereinafter – "HPM") cash-generating unit was based on its value in use and was determined by discounting the future cash flows to be generated from HPM. The recoverable amount of HPM exceeds its carrying amount, thus no impairment loss was recognized.

Note 10 - Intangible Assets (cont'd)

B. Key assumptions used in calculation of recoverable amount

(1) Discount rate

The discount rate used for calculating HPM recoverable amount is 14% (2013: 15%). HPM 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 HPM.

(2) Terminal value growth rate

The terminal value growth rate of HPM is 2% (2013: 2%).

Note 11 - Liabilities to Bank and Others

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Current liabilities		
Current maturity of liabilities to bank (1)	**230**	360
Contingent consideration (2)	**159**	143
	389	503
Non-current liabilities		
Liabilities to bank (1)	**1,540**	2,766
Contingent consideration (2)	**203**	295
	1,743	3,061
	2,132	3,564

(1) In October 2012, the Company took a 10 year bank loan in the amount of USD 3.5 million against a mortgage on the real estate property (See Note 16D).
The loan bears interest of Libor+3.7% and is repayable in monthly payments starting November 2012.
In December 2014 the Company repaid a total of USD 1 million in early repayment.

(2) See Note 16E.

The Group's exposure to interest rate, currency and liquidity risks and maturities concerning liabilities to bank and others is disclosed in Note 17 on the financial instruments.

Note 12 - Trade Payables

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Open accounts	**2,975**	2,333
Checks payables	**16**	18
	2,991	2,351

The Group's exposure to currency and liquidity risks concerning trade payables is disclosed in Note 17 on financial instruments.

Note 13 - Other Payables

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Employees and related benefits	**567**	568
Government institutions	**27**	48
Other payables and accrued expenses	**481**	287
	1,075	903

The Group's exposure to currency and liquidity risks concerning other payables is disclosed in Note 17 on financial instruments.

Note 14 - Employee Benefits

Employee benefits denominated in NIS include post-employment benefits and short-term benefits.

Composition of employee benefits:

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Presented under current liabilities:		
Short-term employee benefits	**358**	348
Presented under non-current liabilities:		
Net liability for defined benefit plan	**313**	495
Total employee benefits	**671**	843

Note 14 - Employee Benefits (cont'd)

A. Post-employment benefit plans - defined benefit plan

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

	December 31 2014	December 31 2013
	$ thousands	$ thousands
Present value of defined benefit obligation	**1,339**	1,543
Fair value of plan assets	**(1,026)**	(1,048)
Recognized liability for defined benefit obligations	**313**	495

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

	2014	2013
	$ thousands	$ thousands
Defined benefit obligations as at January 1	**1,543**	1,280
Benefits paid	**(4)**	(1)
Current service costs	**96**	101
Interest costs	**50**	51
Changes in respect of foreign exchange differences	**(164)**	85
Remeasurement of defined benefit plan	**(182)**	27
Defined benefit obligation as at December 31	**1,339**	1,543

2. Movements in plan assets

	2014	2013
	$ thousands	$ thousands
Fair value of plan assets as at January 1	**1,048**	881
Contributions by employer	**70**	79
Interest income	**26**	25
Changes in respect of foreign exchange differences	**(113)**	55
Remeasurement of defined benefit plan	**(5)**	8
Fair value of plan assets as at December 31	**1,026**	1,048

Note 14 - Employee Benefits (cont'd)

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

3. Expenses recognized in profit or loss

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Current service costs	**96**	101
Interest costs	**50**	51
Interest income	**(26)**	(25)
Net change in respect of foreign exchange differences	**(51)**	30
	69	157

4. Recognized in other comprehensive income (loss)

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Defined benefit obligation:		
Actuarial gains (losses) from changes in financial assumptions	**124**	(18)
Actual return less interest income	**(3)**	(6)
Other actuarial gains (losses)	**59**	(3)
Changes in respect of foreign exchange differences	**2**	-
	182	(27)
Plan assets:		
Actual return less interest income	**(16)**	(7)
Actuarial gains from changes in financial assumptions	**15**	-
Other actuarial gains (losses)	**6**	(1)
	5	(8)
Net actuarial gains (losses) in the year	**177**	(19)

5. Actual return

	For the year ended December 31	
	2014	**2013**
	%	**%**
Actual return on plan assets	**5.48**	4.56

Note 14 - Employee Benefits (cont'd)

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

6. Actuarial assumptions and Sensitivity analyses

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

i. Starting 2012 the mortality and disability rates were based on circular letter 2012-3-4 revising the mortality and disability rates based on recent experience in the local market as slightly as better estimates.

ii. The leave rates were determined based on an analysis of the actual experience of the Company.

- The following leave 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 leave 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%

It is assumed that the Company is going to release the individual assets of an employee in any type of leave.

b. In view of the small size of the Company these assumptions are reasonable. With the progress of time and the consequent accumulation of experience, these assumptions are periodically reviewed. Over the last few years the assumptions did not create excessive actuarial deviation.

c. Retirement Age: 67 for men and for women as per the pension law from 2003, based on the employee’s date of birth, the retirement age increases from 62 to 64.

Note 14 - Employee Benefits (cont'd)

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

6. Actuarial assumptions and Sensitivity analyses (cont’d)

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

i. Until December 31, 2013 the discount rate used was based on the yield of fixed-interest Israeli government bonds with duration equal to the duration of the gross liabilities.

Starting 2014 the discount rate used is based on high-quality corporate bonds with duration equal to the duration of the gross liabilities.

Valuation Date	Discount Rate
December 31, 2014	**2.33%**
December 31, 2013	1.57%

For information regarding the effect of a change in the discount rate of a shekel-denominated defined benefit obligation, see Note 2E regarding the basis of preparation of the financial statements.

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

e. 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	
	2014	2013	2014	2013
	$ thousands	$ thousands	$ thousands	$ thousands
Future salary growth	**166**	206	**(99)**	(155)
Discount rate	**(98)**	(155)	**165**	204

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

The Group expects to pay USD 73 thousand in contributions to the funded defined benefit plan in 2015.

Note 14 - Employee Benefits (cont'd)

B. Post-employment benefit plans – defined contribution plan

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Amount recognized as expense in respect of defined contribution plan	**333**	344

C. Short-term employee benefits

	December 31 2014	December 31 2013
	$ thousands	**$ thousands**
Provision for vacation and recreation	**304**	345
Liabilities for bonus	**54**	3
	358	348

Note 15 - Investments in Subsidiaries

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2014:

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.

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.

Note 16 - Commitments, Contingent Liabilities and Liens

A. The UK subsidiary has a commitment for a monthly rent of approximately USD 5 thousand up to the end of March 2023.

B. According to a Management Services Agreement signed between the Company and David Yativ Technologies and Management Ltd., a management company under the full control of Mr. David Yativ (approved by the Company's General meeting dated October 21, 2014), David Yativ will continue to provide management services as the Active Chairman of the Company. For providing these services by David Yativ his management company will be entitled to management fee at a monthly amount of USD 38 thousand (linked to the local Israeli index) which shall be raised by 3% in April 2016 and April 2017, and a yearly bonus calculated as 3.4% of the annual profit before income taxes and before any other profit based bonus.

C. According to the employment agreement as from October 2014, the Company's CEO is entitled to a yearly bonus calculated as 2% of the annual profit before income taxes and before any other profit based bonus (according to previous agreement was entitled to the same bonus calculated as 1.6% (2012), 1.8% (2013) and 2% (2014)).

D. As security for Company's liability to the bank in respect of a long-term loan that as at December 31, 2014 amounts to USD 1,770 thousand (including current maturity), the Company registered an unlimited in amount first degree mortgage in favor of the bank on the rights of the real estate property known as lot 64 in block 3850 (hereinafter: "the mortgaged asset"), including all that is attached to the mortgaged asset and will be attached to it in the future as well as the revenues, benefits and all the other rights related to the mortgaged asset, including construction rights and the rights arising from the insurance of the mortgaged asset. As at December 31, 2014 the balance of the mortgaged asset is USD 9,671 thousand (December 31, 2013: USD 10,030 thousand).

E. On December 28, 2012 the Company executed an agreement for the purchase, via its fully owned UK subsidiary, Himag Planar, of the business activity of Himag Solutions Ltd.

According to the purchase agreement, Himag Planar has a commitment for additional consideration for the purchased activity, conditional upon achieving a minimum annual sales turnover of at least USD 1.6 million (hereinafter: "The Minimal Turnover") that shall be paid as per the following:

1. During 2013-2015 – a fixed annual amount starting from USD 30 thousand should the Minimal Turnover be achieved and up to a sum of USD 70 thousand per year, should the annual sales turnover exceed USD 2 million.

2. During 2013-2016 – an annual amount to be calculated as a percentage of the annual sales turnover starting from 1.5% should the Minimal Turnover be achieved and up to 3.5% should the annual sales turnover exceed USD 2 million.

As a result, the Group recorded a financial liability for contingent consideration. Regarding the fair value of the contingent consideration as at December 31, 2014 - see Note 17E on financial instruments.

Note 17 - 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.

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	
	2014	2013
	Carrying amount	
	$ thousands	$ thousands
Cash and cash equivalents	**4,692**	5,883
Held for trading financial assets	**-**	254
Short-term deposits	**10,447**	6,133
Long-term deposits	**1,005**	3,002
Trade accounts receivable	**5,919**	4,030
Other accounts receivable	**99**	250
	22,162	19,552

Note 17 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk (cont'd)

The aforementioned balances are presented under the items of cash and cash equivalents, deposits, trade accounts receivable, other accounts receivable and marketable securities held for trading.

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

	December 31	
	2014	**2013**
	Carrying amount	
	$ thousands	**$ thousands**
Israel	**3,398**	4,106
U.S.A.	**1,278**	1,736
U.K.	**16**	41
	4,692	5,883

The maximum exposure to credit risk for held for trading financial assets at the reporting date by geographic region was:

	December 31	
	2014	**2013**
	Carrying amount	
	$ thousands	**$ thousands**
U.S.A.	**-**	254

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

	December 31	
	2014	**2013**
	Carrying amount	
	$ thousands	**$ thousands**
Israel	**8,267**	3,975
U.S.A.	**2,180**	2,158
	10,447	6,133

Note 17 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk (cont'd)

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

	December 31	
	2014	**2013**
	Carrying amount	
	$ thousands	**$ thousands**
Israel	**1,005**	1,001
U.S.A.	**-**	2,001
	1,005	3,002

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

	December 31	
	2014	**2013**
	Carrying amount	
	$ thousands	**$ thousands**
Israel	**752**	481
Asia	**2,437**	879
U.K.	**382**	482
Other countries in Europe	**614**	799
U.S.A.	**1,733**	1,378
Canada	**1**	11
	5,919	4,030

2. Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31			
	2014		**2013**	
	Gross	**Impairment**	**Gross**	**Impairment**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**
Not past due	**4,236**	**-**	3,064	-
Past due 0-30 days	**1,287**	**-**	601	-
Past due 31-120 days	**334**	**-**	352	-
Past due 121 days to one year	**61**	**(3)**	11	-
Past due more than one year	**8**	**(4)**	6	(4)
	5,926	**(7)**	4,034	(4)

Note 17 - 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:

	December 31, 2014						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
				$ thousands			
Non-derivative financial liabilities							
Trade payables	**2,991**	**2,991**	**2,991**	**-**	**-**	**-**	**-**
Other payables	**481**	**481**	**481**	**-**	**-**	**-**	**-**
Liabilities to bank and others (1)	**2,132**	**2,441**	**306**	**145**	**435**	**880**	**675**
	5,604	**5,913**	**3,778**	**145**	**435**	**880**	**675**

	December 31, 2013						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
				$ thousands			
Non-derivative financial liabilities							
Trade payables	2,351	2,351	2,351	-	-	-	-
Other payables	287	287	287	-	-	-	-
Liabilities to bank and others (1)	3,564	4,197	380	233	602	1,525	1,457
	6,202	6,835	3,018	233	602	1,525	1,457

(1) The interest payments on variable interest rate loan and future cash flows on contingent consideration may be different from the amounts in the above table.

Note 17 - Financial Instruments (cont'd)

D. Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

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, 2014 and 2013 the Group has no open future transactions.

(a) The exposure to foreign currency risk

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

	December 31, 2014				
	Dollar	**NIS**	**Euro**	**GBP**	**Total**
			$ thousands		
Current assets:					
Cash and cash equivalents	**4,043**	**315**	**241**	**93**	**4,692**
Short-term deposits	**10,447**	**-**	**-**	**-**	**10,447**
Trade and other receivables	**4,729**	**458**	**443**	**388**	**6,018**
Non-current assets:					
Long-term deposits	**1,005**	**-**	**-**	**-**	**1,005**
Current liabilities:					
Liabilities to bank and others	**(389)**	**-**	**-**	**-**	**(389)**
Trade payables	**(2,429)**	**(463)**	**(6)**	**(93)**	**(2,991)**
Other payables	**(362)**	**(97)**	**(22)**	**-**	**(481)**
Non-current liabilities:					
Liabilities to bank and others	**(1,743)**	**-**	**-**	**-**	**(1,743)**
	15,301	**213**	**656**	**388**	**16,558**

Note 17 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Foreign currency risk (cont'd)

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

	December 31, 2013				
	Dollar	**NIS**	**Euro**	**GBP**	**Total**
	$ thousands				
Current assets:					
Cash and cash equivalents	5,555	103	164	61	5,883
Marketable securities and short-term deposits	6,387	-	-	-	6,387
Trade and other receivables	2,714	572	535	459	4,280
Non-current assets:					
Long-term deposits	3,002	-	-	-	3,002
Current liabilities:					
Liabilities to bank and others	(503)	-	-	-	(503)
Trade payables	(1,492)	(779)	(11)	(69)	(2,351)
Other payables	(127)	(144)	(16)	-	(287)
Non-current liabilities:					
Liabilities to bank and others	(3,061)	-	-	-	(3,061)
	12,475	(248)	672	451	13,350

Information regarding significant exchange rates:

	Year ended December 31		Year ended December 31	
	2014	**2013**	**2014**	**2013**
	Rate of change		Reporting date spot rate	
	%	%	NIS	NIS
1 US dollar	**12.04**	(7.02)	**3.889**	3.471

	Year ended December 31		Year ended December 31	
	2014	**2013**	**2014**	**2013**
	Rate of change		Reporting date spot rate	
	%	%	Euro	Euro
1 US dollar	**13.36**	(4.35)	**0.823**	0.726

	Year ended December 31		Year ended December 31	
	2014	**2013**	**2014**	**2013**
	Rate of change		Reporting date spot rate	
	%	%	GBP	GBP
1 US dollar	**6.13**	(2.26)	**0.641**	0.604

Note 17 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Foreign currency risk (cont'd)

(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 2013.

	Equity and profit or loss	
	December 31 2014	December 31 2013
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	**11**	(12)
5% in the Euro	**33**	34
5% in the GBP	**19**	22

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.

2. Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents, short-term and long-term deposits (in US dollars) which bear interest rates given by or affected by banks in the range of 0.19%-1.35% which changes from time to time, and marketable securities.

(a) Profile

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

	December 31	
	2014	2013
	Carrying amount	
	$ thousands	$ thousands
Fixed rate instruments		
Financial assets	**13,420**	10,354
Variable rate instruments		
Financial liabilities	**1,770**	3,126

Note 17 - Financial Instruments (cont'd)

D. Market risk (cont'd)

2. Interest rate risk (cont'd)

(b) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities 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 and liabilities to bank and others are the same or proximate to their fair value.

Fair value hierarchy

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

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

	December 31, 2014		
	Level 1	Level 3	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	**208**	**-**	**208**
Contingent consideration	**-**	**362**	**362**

	December 31, 2013		
	Level 1	Level 3	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	980	-	980
Contingent consideration	-	438	438

The fair value of contingent consideration is calculated using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). The liability is discounted to present value using the market interest rate at the reporting date.

Note 17 - Financial Instruments (cont'd)

E. Fair value (cont'd)

Significant unobservable inputs include the expected annual sales turnover and the discount rate (2014: 14%; 2013: 16.6%). The estimate of fair value will increase as the expected annual sales turnover increases and the discount rate decreases.
As at December 31, 2014 the fair value of the contingent consideration liability has decreased to USD 362 thousand, following a payment of USD 143 thousand referring to year 2013. On the other hand, an increase in the total amount of USD 67 thousand has been recognized in the statement of income as follows:

1. An amount of USD 12 thousand that reflects the changes related to the expected annual sales turnover increase has been recognized as other expenses.
2. An amount of USD 55 thousand that reflects the changes related to the time value of the liability has been recognized as financing expenses.

A change in one of the unobservable inputs will affect the estimated fair value of the contingent consideration as of December 31, 2014, as follows:

1. A decrease of 5% in the discount rate will cause in an increase of USD 2 thousand.
2. An increase of 5% in the expected annual sales turnover will cause in an increase of USD 7 thousand.

A change in these unobservable inputs at the same opposite rate will have the equal but opposite effect on the fair value of the contingent consideration.

Note 18 - Share Capital

Composition

	Number of shares	
	Authorized	Issued and paid
	December 31, 2014 and 2013	
Ordinary shares of NIS 1 each	**20,000,000**	**17,670,775**

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

Note 19 - Income Statement Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2014	2013
	$ thousands	$ thousands
Export	**24,353**	18,741
Local	**974**	1,280
	25,327	20,021

2. Principal customers

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

	For the year ended December 31	
	2014	2013
	%	%
Customer A	**16**	*

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

B. Cost of sales

1. Cost of sales

	For the year ended December 31	
	2014	2013
	$ thousands	$ thousands
Materials consumed	**10,439**	7,390
Salaries and related benefits	**4,648**	4,257
Depreciation	**744**	616
Other manufacturing expenses	**1,165**	1,153
Change inventory of finished products and work in process	**(250)**	440
	*** 16,746**	*13,856

* Includes inventory write-off of USD 72 thousand and USD 265 thousand for the years ended December 31, 2014 and 2013, respectively.

Note 19 - Income Statement Data (cont'd)

B. Cost of sales (cont'd)

2. Principal Suppliers

The cost of sales includes purchases from principal suppliers (which make up in excess of 10% of the purchases of the Group):

	For the year ended December 31	
	2014	**2013**
	%	**%**
Supplier A	**40**	42
Supplier B	**14**	*

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

C. Selling and marketing expenses

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Salaries and related benefits	**920**	825
Sales commissions	**659**	638
Advertising and marketing	**80**	82
Exhibits and travel abroad	**329**	291
Other	**31**	96
	2,019	1,932

D. General and administrative expenses

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Salaries and related benefits	**1,137**	1,148
Office rent, maintenance and communications	**216**	229
Depreciation	**277**	230
Professional services	**283**	267
Management fees and related benefits to a related party	**418**	330
Other	**648**	600
	2,979	2,804

E. Other expenses

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Capital loss on sale of fixed assets	**3**	47
Expenses arising from the move to the new facility	**-**	206
Changes in the fair value of contingent consideration (see Note 17E)	**12**	222
	15	475

Note 19 - Income Statement Data (cont'd)

F. Finance income and expenses

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Finance income		
Interest income from bank deposits	**102**	86
Income from marketable securities held for trading	**23**	33
Exchange rate differences, net	**-**	100
Interest from transactions with parent company	**-**	11
Interest from tax overpayments	**6**	16
Other	**-**	15
	131	261
Finance expenses		
Bank charges and others	**36**	28
Interest on bank loan	**115**	82
Changes in fair value of contingent consideration (see Note 17E)	**55**	16
Exchange rate differences, net	**57**	-
Interest on transactions with parent company	**8**	-
	271	126

G. Transactions and balances with related parties

	For the year ended December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Management fees and related benefits to David Yativ, Technologies and Management*	**548**	456
Financing expenses (income) from the Parent Company	**8**	(11)
Fees to directors	**34**	33
Short-term employee benefits (2014 and 2013: 5 personnel)	**632**	585
Post-employment benefits (2014 and 2013: 5 personnel)	**5**	120

* Management fees and related benefits to David Yativ, Technologies and Management Ltd. (see Note 16B) include an amount of USD 130 thousand (year ended December 31, 2013: USD 126 thousand) allocated as selling and marketing expenses.

	December 31	
	2014	**2013**
	$ thousands	**$ thousands**
Presented under other accounts receivable:		
The Parent Company	**99**	250
Presented under other payables:		
David Yativ, Technologies and Management	**127**	43
Directors not employed by the Company	**8**	9

Note 20 - 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 2013-2014:
2013 – 25%
2014 – 26.5%

Current taxes for the reported periods are calculated according to the tax rates presented above. See also Note 20A4 hereunder.

(b) According to various amendments to the Income Tax Ordinance (New Version) – 1961, Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)” that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the 2007 through 2013 tax years even if this standard was applied when preparing the financial statements.

2. The Dollar regulations

The Company, being "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.

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. Companies can choose not to be included in the scope of the Amendment to the Law and to stay in the scope of the law before its amendment until the end of the benefits period of its approved/beneficiary enterprise. The 2012 tax year is the last year companies can choose as the year of election, providing that the minimum qualifying investment began in 2010.

Note 20 - 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") (cont'd)

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, such as: in the 2011-2012 tax years - a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years - a tax rate of 7% for Development Area A and of 12.5% for the rest of the country and as from 2015 tax year - a tax rate of 6% for Development area A and of 12% for the rest of the country. 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 cancelled the planned tax reduction so that as from the 2014 tax year the tax rate on preferred income will be 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 15% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. The Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013 raised to 20% the tax rate on a dividend distributed to an individual and foreign resident out of preferred income as from January 1, 2014.

Furthermore, the Amendment to the Law provides relief (hereinafter - "the relief") with respect to the non-payment of tax on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice. Furthermore, a distribution from profits of the exempt enterprise will be subject to tax by the distributing company.

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 35% 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%.

Note 20 - Income Taxes (cont'd)

D. Final tax assessments

The Company has received final tax assessments up to and including the 2010 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 2011.

E. Composition of income tax expense

	For the year ended December 31	
	2014	2013
	$ thousands	$ thousands
Current year taxes	**172**	98
Deferred tax expense (income) - creation and reversal of temporary differences	**306**	(20)
Deferred tax income - effect of change in tax rate	**-**	(15)
	478	63

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	
	2014	2013
	$ thousands	$ thousands
Tax rate	**26.5%**	25%
Profit before tax	**2,489**	176
Income tax using the domestic corporations tax rate	**660**	44
Additional tax saving in respect of foreign subsidiary	**-**	(5)
Non-deductible expenses and tax exempt income, net	**7**	14
Tax benefits due to Preferred Enterprise status	**(190)**	(78)
Current year tax losses for which deferred taxes were not created	**(6)**	106
Change in tax rate	**-**	(15)
Others	**7**	(3)
	478	63

Note 20 - 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	Other	Total
			$ thousands		
Balance as at January 1, 2013	-	124	-	1	125
Effect of change in tax rate	-	16	(1)	-	15
Changes recognized in profit or loss	33	26	(39)	-	20
Balance as at December 31, 2013	33	166	(40)	1	160
Changes recognized in profit or loss	**-**	**(9)**	**(297)**	**-**	**(306)**
Changes recognized in other comprehensive income	**-**	**(35)**	**-**	**-**	**(35)**
Balance as at December 31, 2014	**33**	**122**	**(337)**	**1**	**(181)**

	Carry-forward tax losses	Employee benefits	Fixed assets	Other	Total
			$ thousands		
Deferred tax assets	**33**	**122**	**-**	**1**	**156**
Offset of balances					**(123)**
Deferred tax asset in statement of financial position as at December 31, 2014					**33**
Deferred tax liability	**-**	**-**	**(337)**	**-**	**(337)**
Offset of balances					**123**
Deferred tax liability in statement of financial position as at December 31, 2014					**(214)**

Note 20 - 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	Other	Total
			$ thousands		
Deferred tax assets	33	166	-	1	200
Offset of balances					(40)
Deferred tax asset in statement of financial position as at December 31, 2013					160
Deferred tax liability	-	-	(40)	-	(40)
Offset of balances					40
Deferred tax liability in statement of financial position as at December 31, 2013					-

(2) Unrecognized deferred tax liabilities

As at December 31, 2014 a deferred tax liability in the amount of USD 114 thousand (2013: USD 93 thousand) for temporary differences in the amount of USD 430 thousand (2013: USD 372 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, 2014 deferred tax assets have not been recognized in respect of tax losses in the amount of USD 494 thousand (2013: USD 424 thousand) since currently it is not probable that future taxable profit will be available, against which the Group can utilize the benefits.

Note 21 - Earnings Per Share

Basic earnings per share

	For the year ended December 31	
	2014	2013
	$ thousands	$ thousands
Profit for the year	**2,011**	113
Issued ordinary shares (in thousands of shares)	**17,671**	17,671
Basic earnings per ordinary share (in US$)	**0.11**	0.01

Note 22 - Entity Wide Disclosure

1. 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, 2014				
	Israel	**Europe**	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Revenues	**2,180**	**6,764**	**6,757**	**9,626**	**25,327**
Non-current assets	**11,301**	**1,012**	**778**	**-**	**13,091**

	For the year ended December 31, 2013				
	Israel	**Europe**	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Revenues	2,404	5,898	6,876	4,843	20,021
Non-current assets	11,872	1,039	806	-	13,717

2. Information about sales to principal customers - see Note 19A2.