



PAYTON GROUP
INTERNATIONAL

**Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
June 30, 2009 (Unaudited)**

Financial Statements as at June 30, 2009 (Unaudited)

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The Board of Directors' Report¹ on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries for the six months ended on June 30, 2009.

Notice: This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events. Management emphasizes that the assumptions do not, in any way, imply commitment towards realization. The outcome of which is subject to certain risks and other factors, which may be outside of the Company's control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results or outcomes may vary materially from those described herein as projected, anticipated, believed, estimated, expected or intended.

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

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

A. The Group

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

B. The Group's main fields of activity and changes that occurred in the period from January to June 2009

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

Qualifications of Automotive International Standard "ISO/TS 16949 : 2002" & Aerospace and Avionics International Standard "AS 9100" – in the first half of 2009 the Company successfully passed all tests and was awarded with both certifications.

Payton management believes that those two important certifications will help to further penetrate the Automotive and Space/Avionic markets giving Payton a competitive advantage in the global market.

- **Global Environment and External factors effect on the Group's activity** - The downturn in the global financial markets that started in 2008 didn't end by the first half of year 2009. A severe credit crisis is still effective. It appears that the direct consequences of the crisis have not yet run their full course.

The global economic crisis affects the business positions of the Group's customers resulting in orders and sales slowdown. Due to the fact that the exact course the crisis is expected to follow cannot be foreseen, it is not possible to assess its consequences to the Group. The Company Management is closely monitoring the situation and will continue to track its developments and effects. In addition, the Company Management is taking all necessary actions in order to cope with the situation, to the greatest extent possible.

¹ The financial statements as at June 30, 2009 form an integral part thereof.

- **A possible purchase of a real-estate property** - On July 02, 2009 Payton Industries, the parent company, informed that it is negotiating a possible purchase of a real-estate property located in the central area of Israel, at a value of NIS 13 Millions +V.A.T (€2.4 Millions + V.A.T). The property is an Industrial building in a stage of a frame, built on a 4,500 square meters plot and consist of a basement/parking lot of 2,000 square meters and two floors above it, 2,000 square meters each. This building is planned to serve Payton Group instead of its current three leased local facilities. The transaction is subject to a financial and legal due-diligence, board resolutions and the execution of a purchase agreement.

As of the date of signing these financial statements the negotiation didn't mature into a signed agreement.

C. Principal customers

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

	For the six-month period ended June 30	For the year ended December 31	For the six-month period ended June 30
	2009	2008	2008
Customer A	*	19.0%	20.1%
Customer B	11.2%	15.0%	11.7%
Customer C	21.9% **	*	*

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

** It is noted that the major project of this customer is expected to end on September 2009.

D. Marketing

During the period from January to June 2009 the Group participated in the following exhibitions:

- February 2009, "APEC 2009" exhibition in Washington, U.S.A.
- March 2009, "Technology Hitech 2009" exhibition in Tel-Aviv, Israel.
- May 2009, "Technology & Military" exhibition in Airport City, Israel and "PCIM" exhibition in Nuremberg, Germany.
- June 2009, "The 36th international conference of the Audio Engineering Society" exhibition in Michigan, USA and "Electronic Americans" exhibition in São Paulo Anhembi Park, Brazil.

E. Order and Purchase Backlog

Order and purchase backlog of the Group as of June 30, 2009 were USD 5,298 thousand (December 31, 2008 - USD 4,045 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 30.6.09 will be supplied until March 31, 2010.

2. Financial position

A. Statement of Financial Position as at June 30, 2009

Cash and cash equivalents, Marketable securities and Short-term Deposits - these three items amounted to a total of USD 14,023 thousand as at June 30, 2009 compared to USD 13,984 thousand as at December 31, 2008 and USD 13,680 thousand as at June 30, 2008.

It is noted that Company's holding of securities with an Auction Reset feature ("ARS"), are presented as a long-term investment among the non-current assets.

Trade accounts receivable - these amounted to USD 3,782 thousand as at June 30, 2009 compared to USD 3,716 thousand as at December 31, 2008 and USD 3,391 thousand as at June 30, 2008. The increase in this item as of June 30, 2009 compared to the same period last year is mainly due to temporary increase in credit terms of a principal customer.

Marketable securities available for sale (non-current assets) - these amounted to USD 2,774 thousand as at June 30, 2009 compared to USD 2,660 thousand as at December 31, 2008 and USD 2,853 thousand as at June 30, 2008. The said amounts represent Company's holding of securities with an Auction Reset feature ("ARS"), which their fair value was assessed by a professional external appraisers company. See detailed information regarding Fair value analysis at paragraph B below.

Deferred Taxes - these amounted to USD 87 thousand as at June 30, 2009 compared to USD 90 thousand as at December 31, 2008 and USD 493 thousand as at June 30, 2008. The decrease in this item as of June 30, 2009 compared to June 30, 2008, resulted mainly from using its tax assets. It is noted that, in order to avoid exchange rate exposure in the Company's tax reports, starting year 2009 the Company edits its tax reports in USD instead of in New Israeli Shekel ("NIS") it used in the past. (See also note 4 to the financial statements as at 30.6.09).

Other payables - these amounted to USD 922 thousand as at June 30, 2009 compared to USD 1,053 thousand as at December 31, 2008 and USD 1,351 thousand as at June 30, 2008. The decrease in this item resulted mainly due to a decrease in current liabilities to related parties.

Current tax liability - these amounted to USD 1,159 thousand as at June 30, 2009 compared to USD 1,625 thousand as at December 31, 2008 and USD 1,389 thousand as at June 30, 2008. The decrease in this item as of June 30, 2009 compared to December 31, 2008 is mainly due to tax payment made during the second quarter of 2009.

B. Fair value analysis of Marketable Securities available for sale

The Company invested in U.S. Auction Rate Securities (“ARS”), a debt instrument issued by local authorities, high education institutions and others, with a long-term nominal maturity (much more than 10 years), for which the interest rate is regularly reset through an auction. In the said auction, broker-dealers submit bids on behalf of potential buyers and sellers of the bond. Based on the submitted bids, the auction agent will set the next interest rate as the lowest rate to match supply and demand. Auctions are typically held every 7 or 28 days; interest on these securities is paid at the end of each auction period.

In the first quarter of previous year (2008), these ARS securities were classified as short-term held for trading securities. During the second quarter of 2008 the Company reexamined their classification and reached the conclusion that the aforementioned securities should have been classified on the date of purchase as short-term available for sale securities.

By the end of the first quarter of 2008 these ARS were presented at their par value. Starting the second quarter of 2008 and in light of the liquidity crisis in the American market, the Company appealed for a valuation regarding the fair value of the ARS it holds. As at June 30, 2009 the fair value of ARS was assessed at the amount of USD 2,774 thousand, compared to USD 2,660 thousand as at December 31, 2008 and compare to USD 2,853 thousand as at June 30, 2008 (Par value, both dates - USD 2,975 thousand). The valuation was prepared by an external, independent appraiser (Houlihan Smith & Company Inc.) having suitable professional skills.

The Company included the total of this fair value decline, amounting USD 201 thousand in a capital reserve. It is noted that, according to that valuation, the change in fair value of the aforementioned securities is due to changes in current market conditions and in the liquidity of the markets, and is not due to financial difficulties or liquidity problems of the instrument’s issuer.

Furthermore, management of the Company believes that it will not be possible to materialize the said securities at their stated value in the short-term, and intends to hold them for a long-term or until their value rises back to their par value. Therefore and in accordance with IAS 39, the Company did not recognize impairment of the securities. The balance of the securities as at June 30, 2009 was presented as long-term available for sale securities.

C. Operating results

Summary of Consolidated quarterly Statements of Income US Dollars in thousands

Payton Planar Magnetics Ltd. Consolidated Income Statements

	<u>Quarter 4-6/09</u>	<u>Quarter 1-3/09</u>	<u>Quarter 10-12/08</u>	<u>Quarter 7-9/08</u>	<u>Quarter 4-6/08</u>
Sales revenues	3,673	2,712	3,554	4,246	4,026
Cost of sales	2,318	1,716	2,083	2,655	2,562
<i>Gross profit</i>	<u>1,355</u>	<u>996</u>	<u>1,471</u>	<u>1,591</u>	<u>1,464</u>
Development costs	(148)	(146)	(151)	(193)	(174)
Selling & marketing expenses	(227)	(185)	(316)	(362)	(289)
General & administrative expenses	(502)	(426)	(496)	(545)	(551)
Other income (expenses)	1	(1)	2	3	-
<i>Operating income</i>	<u>479</u>	<u>238</u>	<u>510</u>	<u>494</u>	<u>450</u>
Finance income (expenses), net	353	(85)	205	(104)	5
<i>Profit before income taxes</i>	<u>832</u>	<u>153</u>	<u>715</u>	<u>390</u>	<u>455</u>
Income taxes	(270)	48	(484)	(218)	47
<i>Net profit for the period</i>	<u><u>562</u></u>	<u><u>201</u></u>	<u><u>231</u></u>	<u><u>172</u></u>	<u><u>502</u></u>

General Note: The Group is exposed to exchange rate fluctuations 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/devaluation of the local Israeli currency drives to an increase/decrease (respectively) in labor costs and other operating costs, thus, affects the operating results of the Company. The average rate of the USD with relation to the NIS, during the first half of 2009, went up by 13% compared to average rate of year 2008, reflecting a decrease in the above-mentioned costs when they are presented in USD.

Sales revenues - The Group's sales revenues for the six-month period ended June 30, 2009 were USD 6,385 thousand compared to USD 7,455 thousand in the six-month period ended June 30, 2008.

The Group's sales revenues for the three-month period ended June 30, 2009 were USD 3,673 thousand compared to USD 4,026 thousand in the three-month period ended June 30, 2008. The sales continued to be affected by the global slow-down.

Gross profit - The Group's gross profit for the six-month period ended June 30, 2009 was USD 2,351 thousand (37% of sales) compared to USD 2,829 thousand (38% of sales) in the six-month period ended June 30, 2008.

The Group's gross profit for the three-month period ended June 30, 2009 amounted USD 1,355 thousand (37% of sales) compared to USD 1,464 thousand (36% of sales) in the three-month period ended June 30, 2008. The Company succeeded to maintain the gross profit ratio at about the same level as previous periods last year.

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 six-month period ended June 30, 2009 were USD 294 thousand (See "General Note" above).

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

Finance income (expenses), net - The Group's net finance income for the six-month period ended June, 2009 amounted USD 268 thousand compared to an income of USD 78 thousand in the six-month period ended June 30, 2008. Exchange rate fluctuations of financial assets (in Euro and in NIS) caused most of the increase in the net finance income.

Income Taxes - In 2008, the report to the Israeli tax authorities was according to the financial statements in NIS. Starting from the 2009 tax year report, the Company will report to the Israeli tax authorities according to the financial statements in US Dollars.

The Group's net income taxes expenses for the six-month period ended June 30, 2009 amounted to USD 222 thousand. It is noted that, last year during the same six-month period, the Company accumulated losses in its tax reports; thus, a net tax benefit of USD 150 thousand was recognized

3. Liquidity

A. Liquidity Ratios

The following table presents the financial ratios in the statement of Financial Position:

Payton Planar Magnetics Ltd.			
Consolidated financial ratios			
	June 30, 2009	December 31, 2008	June 30, 2008
Current ratio ²	5.42	4.77	4.41
Quick ratio ³	4.83	4.27	3.93

² Current ratio calculation – Current assets / Current liabilities

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

B. Operating activities

Cash flow generated from operating activities for the six-month period ended June 30, 2009 amounted USD 298 thousand, compared to the cash flow generated from operating activities of USD 1,078 thousand for the six-month period ended June 30, 2008. The decrease in cash flow generated from operating activities resulted mainly from the increase in trade receivables.

C. Investing activities

Cash flow used for investing activities in the six-month period ended June 30, 2009, amounted USD 96 thousand, compared to cash flow generated from investing activities of USD 420 thousand in the six-month period ended June 30, 2008.

Cash flow used for investing activities in the first half of year 2009 resulted mainly from investments in property plant and equipment mostly in the Printed Circuits Board ("PCB") facility in Ashkelon, Israel.

4. Financing sources

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

5. External factors effects

5.1 The global financial markets crisis - see paragraph B above under: "Global Environment and External factors effect on the Group's activity".

5.2 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 Group's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are being affected.

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.

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

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

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

Rishon Lezion, August 19, 2009.



Somekh Chaikin
KPMG Millennium Tower
17 Ha'arba'a Street, PO Box 609
Tel Aviv 61006 Israel

Telephone 972 3 684 8000
Fax 972 3 684 8444
Internet www.kpmg.co.il

Review Report to the Shareholders of Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying financial information of Payton Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of June 30, 2009 and the related condensed consolidated interim statements of comprehensive income, changes in equity and cash flows for the six-month and the three-month periods then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 “*Interim Financial Reporting*”. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed interim financial information of a subsidiary whose assets constitute 9% of the total consolidated assets as at June 30, 2009, and whose revenues constitute 19% of the total consolidated revenues for the six-month and the three-month periods then ended. The condensed interim financial information of the subsidiary was reviewed by other auditors whose review reports thereon were furnished to us, and our conclusion, insofar as it relates to amounts emanating from the financial information of such company, is based solely on the said review reports of the other auditors.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 “*Review of Interim Financial Information Performed by the Independent Auditor of the Entity*”. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34 “*Interim Financial Reporting*.”

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

August 19, 2009

Condensed Consolidated Interim Statement of Financial Position as at

	June 30 2009	June 30 2008	December 31 2008
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Current assets			
Cash and cash equivalents	8,429	10,654	8,230
Marketable securities held for trading	1,106	1,315	1,255
Short-term deposits	4,488	1,711	4,499
Trade accounts receivable	3,782	3,391	3,716
Other accounts receivable	68	143	79
Inventory	2,170	2,108	2,072
Total current assets	20,043	19,322	19,851
Non-current assets			
Deposits	-	5	-
Marketable securities available for sale	2,774	2,853	2,660
Other investment	348	348	348
Property, plant and equipment, net	1,742	1,573	1,639
Deferred taxes	87	493	90
Total non-current assets	4,951	5,272	4,737
Total assets	24,994	24,594	24,588

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

Michal Lichtenstein
V.P. Finance & CFO

August 19, 2009

Condensed Consolidated Interim Statement of Financial Position (cont'd)

	June 30	June 30	December 31
	2009	2008	2008
	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands
Liabilities and shareholder's equity			
Current liabilities			
Trade payables	1,616	1,640	1,482
Other payables	922	1,351	1,053
Current tax liability	1,159	1,389	1,625
Total current liabilities	3,697	4,380	4,160
Non-current liabilities			
Employee benefits	144	148	152
Total non-current liabilities	144	148	152
Shareholders' equity			
Share capital	4,836	4,836	4,836
Share premium	8,993	8,993	8,993
Capital fund for available-for-sale assets	(201)	(122)	(315)
Accumulated earnings	7,525	6,359	6,762
Total shareholders' equity	21,153	20,066	20,276
Total liabilities and shareholders' equity	24,994	24,594	24,588

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

Condensed Consolidated Interim Statements of Comprehensive Income

	Six months ended June 30		Three months ended June 30		Year ended
	2009	2008	2009	2008	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Revenues	6,385	7,455	3,673	4,026	15,255
Cost of sales	(4,034)	(4,626)	(2,318)	(2,562)	(9,364)
Gross profit	2,351	2,829	1,355	1,464	5,891
Development costs	(294)	(364)	(148)	(174)	(708)
Selling and marketing expenses	(412)	(602)	(227)	(289)	(1,280)
General and administrative expenses	(928)	(998)	(502)	(551)	(2,039)
Other income	-	2	1	-	7
Operating income	717	867	479	450	1,871
Finance income	280	288	359	126	449
Finance expenses	(12)	(210)	(6)	(121)	(270)
Finance income, net	268	78	353	5	179
Profit before income taxes	985	945	832	455	2,050
Income taxes (Note 4)	(222)	150	(270)	47	(552)
Net profit for the period	763	1,095	562	502	1,498
Other comprehensive income (expenses)					
Net change in fair value of available-for-sale assets	114	(122)	64	(122)	(315)
Total comprehensive income for the period	877	973	626	380	1,183
Basic and diluted earnings per ordinary share (in \$)	0.04	0.06	0.03	0.03	0.08

The presentation of the statement of comprehensive income was changed as a result of the initial implementation of revised IAS 1 in these financial statements. See also Note 3(1)A regarding the initial implementation of new standards.

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital		Share premium \$ thousands	Capital fund for available- for-sale assets \$ thousands	Accumulated earnings \$ thousands	Total \$ thousands
	Number of shares	\$ thousands				
Balance at January 1, 2009 (Audited)	17,670,775	4,836	8,993	(315)	6,762	20,276
Comprehensive income for the period (Unaudited)	-	-	-	114	763	877
Balance at June 30, 2009 (Unaudited)	17,670,775	4,836	8,993	(201)	7,525	21,153
Balance at January 1, 2008 (Audited)	17,670,775	4,836	8,993	-	5,264	19,093
Comprehensive income (expenses) for the period (Unaudited)	-	-	-	(122)	1,095	973
Balance at June 30, 2008 (Unaudited)	17,670,775	4,836	8,993	(122)	6,359	20,066
Balance at April 1, 2009 (Unaudited)	17,670,775	4,836	8,993	(265)	6,963	20,527
Comprehensive income for the period (Unaudited)	-	-	-	64	562	626
Balance at June 30, 2009 (Unaudited)	17,670,775	4,836	8,993	(201)	7,525	21,153
Balance at April 1, 2008 (Unaudited)	17,670,775	4,836	8,993	-	5,857	19,686
Comprehensive income (expenses) for the period (Unaudited)	-	-	-	(122)	502	380
Balance at June 30, 2008 (Unaudited)	17,670,775	4,836	8,993	(122)	6,359	20,066
Balance at January 1, 2008 (Audited)	17,670,775	4,836	8,993	-	5,264	19,093
Comprehensive income (expenses) for the year (Audited)	-	-	-	(315)	1,498	1,183
Balance at December 31, 2008 (Audited)	17,670,775	4,836	8,993	(315)	6,762	20,276

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

Condensed Consolidated Interim Statements of Cash Flows

	Six months ended June 30		Three months ended June 30		Year ended
	2009	2008	2009	2008	December 31
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
	\$ thousands	\$ thousands	\$ thousands	\$ thousands	\$ thousands
Net Operating activities					
Net profit for the period	763	1,095	562	502	1,498
Adjustments to reconcile net profit to net cash generated from operating activities:					
Depreciation	131	108	68	55	227
Capital gain on sale of equipment	-	(2)	(1)	-	(7)
(Decrease) increase in employee benefits	(8)	24	10	8	28
(Increase) decrease in trade receivables	(66)	886	(766)	(227)	561
(Increase) decrease in other accounts receivable	(10)	2	(4)	45	66
Increase in inventory	(98)	(126)	(28)	(29)	(90)
Increase (decrease) in trade payables	147	61	397	369	(118)
Decrease in other payables and tax liability	(576)	(580)	(206)	(823)	(613)
Decrease (increase) in deferred taxes	3	(371)	(14)	(162)	32
Finance expenses (income), net	12	(19)	(220)	43	149
Cash flows generated from (used for) operating activities	298	1,078	(202)	(219)	1,733
Investing activities					
Investments in marketable securities held for trading	-	(747)	-	-	(747)
Investments in marketable securities available for sale	-	(1,000)	-	-	(1,000)
Proceeds from sale of marketable securities available for sale	-	1,039	-	-	1,039
Proceeds from sale of marketable securities held for trading	140	-	140	-	-
Proceeds from (investments in) deposits, net	11	1,474	1,351	1,674	(1,309)
Investment in property, plant and equipment	(254)	(368)	(40)	(200)	(547)
Proceeds from sale of equipment	7	22	2	7	41
Cash flows (used for) generated from investing activities	(96)	420	1,453	1,481	(2,523)
Net increase (decrease) in cash and cash equivalents	202	1,498	1,251	1,262	(790)
Cash and cash equivalents at beginning of the period	8,230	9,063	7,113	9,350	9,063
Effect of exchange rate fluctuations on cash held	(3)	93	65	42	(43)
Cash and cash equivalents at end of the period	8,429	10,654	8,429	10,654	8,230
Supplementary disclosure					
Interest received included in cash flows generated from operating activities	127	231	69	104	436
Tax paid included in cash flows generated from operating activities	665	115	660	38	199

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

Notes to the Consolidated Interim Financial Statements

Note 1 - General

- A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). In June 1998, the Company completed its initial public offering in the Euro NM.
- B. The Company develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiaries and distributors. Its manufacturing includes the manufacture of printed circuits.

Note 2 - Financial Reporting and Accounting Policies

- A. The condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting". They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2008 (hereinafter "annual financial statements").
These condensed consolidated interim financial statements were authorized for issue by the Group's Board of Directors on August 19, 2009.
- B. The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended December 31, 2008.

Note 3 - Significant Accounting Policies

Except as described below in Item (1), the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements.

Presented hereunder is a description of the changes in accounting policies that were applied in these condensed consolidated interim financial statements and their effect

(1) Initial implementation of new standards

A. Presentation of financial statements

As from January 1, 2009 the Company implements revised IAS 1, *Presentation of Financial Statements* (hereinafter – the Standard). The Standard allows the presentation of one statement of comprehensive income (a combined statement of income and of other comprehensive income) or two statements – a statement of income and a separate statement of comprehensive income. The Company has chosen to present a combined statement of income and of other comprehensive income. Furthermore, the Company presents a statement of changes in equity immediately after the statement of comprehensive income. The Standard is applied on a retrospective basis.

Notes to the Consolidated Interim Financial Statements

Note 3 - Significant Accounting Policies (cont'd)**(1) Initial implementation of new standards (cont'd)****B. Segment reporting**

The Company reexamined the effect of implementing IFRS 8 and reached the conclusion that the Company has one operating segment, the planar transformers segment. The Company's chief operating decision maker makes decisions and allocates resources with respect to all the planar transformers as a whole. The financial statements for 2008 included a report on geographical segments in accordance with IAS 14 before it was superseded. Since as from January 1, 2009, according to IFRS 8 the segment report is to be provided in accordance with the "management approach", the financial statements for the interim period, including the comparative data, do not include information on a geographical basis.

(2) New standards and interpretations not yet adopted

- Revised IFRS 3 *Business Combinations* (2008) and Revised IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – the Standards). The principal relevant revisions in the Standards are as follows:
 - a. The definition of a business has been broadened, which is likely to result in more acquisitions being treated as business combinations.
 - b. Transactions resulting in discontinuance of consolidation are to be accounted for at full fair value, so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.
 - c. Transactions resulting in the consolidation of financial statements (that were not consolidated before then) are to be accounted for at full fair value, so that the original holding before the consolidation is remeasured on the first date of consolidation, at fair value, through profit or loss.
 - d. The minority interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.
 - e. Acquisitions of additional shares or partial sales of existing shares, without the Company discontinuing consolidation of the financial statements of the companies that performed the transactions, are to be accounted for so that all the differences deriving from the transactions are included directly in equity (including differences that in the past would have been included in profit or loss or as goodwill).

Notes to the Consolidated Interim Financial Statements

Note 3 - Significant Accounting Policies (cont'd)

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

- (cont'd)
 - f. Transaction costs will be expensed as incurred.
 - g. Measurement at fair value of contingent considerations in business combinations with changes in estimates relating to a contingent consideration that is a financial liability being recognized in profit or loss.
 - h. Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of acquiring businesses.
 - i. The attribution of comprehensive income to all the shareholders, even when the subsidiary has an equity deficiency.

These standards shall apply to annual periods beginning on or after July 1, 2009, and early adoption is permitted (both standards at the same time). The principal revisions of these standards shall be applied prospectively, meaning in respect of transactions as from the initial date of implementation.

- Amendment to IFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (hereinafter – the Amendment) that was made in the framework of the 2008 improvements to IFRSs project. In accordance with the Amendment, when the parent company decides on the disposal of part of its holdings in a subsidiary so that after the disposal the parent company is left with a non-controlling interest, for example rights that confer significant influence, all the assets and liabilities attributed to the subsidiary are to be classified as held for sale and the relevant instructions of IFRS 5 shall apply, including presentation as a discontinued operation. The Amendment to the standard shall be implemented prospectively as from financial statements for periods beginning on July 1, 2009. Earlier application is permitted only if the entity adopts IAS 27 (as revised in 2008) at the same time and disclosure is provided.
- IFRIC 18, *Transfer of Assets from Customers* (hereinafter – the Interpretation). The Interpretation addresses the accounting treatment of transfers of fixed assets or of cash for acquiring fixed assets, from customers to the reporting entity, in order to connect the customer to a network enabling the receipt of services or goods, or provide the customer with ongoing access to such services or goods, or both. The Interpretation provides guidance regarding recognition of the fixed assets and measurement on the date of initial recognition, as well as guidance regarding the method of recognizing revenue relating to the receipt of the asset. The Interpretation shall be effective for transfers of assets from customers that are received by the reporting entity on or after July 1, 2009 on a prospective basis. Earlier application is possible under certain circumstances.
- In the framework of the 2009 Improvements to IFRSs project, in April 2009 the IASB published and approved 15 amendments to various IFRS on a wide range of accounting issues. The amendments shall apply to periods beginning on or after January 1, 2010 and permit early adoption, subject to the specific conditions of each amendment.

Notes to the Consolidated Interim Financial Statements

Note 4 - Income Taxes

- A.** On July 25, 2005, the Knesset passed the Law for the Amendment of the Income Tax Ordinance (No. 147) - 2005, which provides, inter alia, for a gradual reduction in the company tax rate to 25% as from the 2010 tax year.

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) - 2009, which provided, inter alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: In the 2009 tax year - 26%, in the 2010 tax year - 25%, in the 2011 tax year - 24%, in the 2012 tax year - 23%, in the 2013 tax year - 22%, in the 2014 tax year - 21%, in the 2015 tax year - 20% and as from the 2016 tax year the company tax rate will be 18%. The effect of the aforementioned change in the tax rates will be reflected in the financial statements for the third quarter of 2009 in a decrease in the deferred tax asset and the recognition of tax expenses in the amount of \$4 thousand.

- B.** In 2008, the report to the Israeli tax authorities was according to the financial statements in NIS. Starting from the 2009 tax year report, the Company will report to the Israeli tax authorities according to the financial statements in US Dollars.