Payton Planar Magnetics Ltd.

Annual Report 2012

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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, 2012

***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 2012

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.

Starting January 1st, 2012, following the purchase agreement approved on November 8, 2011, the business activity of Payton Technologies (1991) Ltd ("Payton Technologies"), a sister-company fully owned by the parent company (Payton Industries), was merged into the Company. All operational assets and liabilities of Payton Technologies as of January 1, 2012 were transferred into the Company for the consideration of the amount of NIS 5.6 million (about € 1.1 million). In order to estimate the fair value of the intangible assets acquired, a Purchase Price Allocation ("PPA") was conducted by Fair Value Ltd., an independent business appraiser, part of EEBC Economic Advisory Group.

Based on the PPA the surplus on the investment was allocated to: production files, open orders and goodwill. See also Note 5 to the Consolidated Financial Statements as of 31.12.12.

By merging the business activity of Payton Technologies, which markets and sells Conventional Transformers, into Payton Planar, the Company will become a "one stop shop" for transformers of all kinds and will be able to answer both Planar and Conventional Magnetic needs. Furthermore, merging the two business activities, combined with their centralization in the new building, will lead to economies of scale and also offer opportunities for synergies between the products.

[1] The financial statements as at December 31, 2012 form an integral part thereof.

In addition, according to the said Purchase Agreement, all key executive officers, employed by the parent company, as of January 1, 2012, are employed directly by the Company, and no participation in parent company management fees is allocated to the Company.

In May 2012, the Company has reached final tax assessments until the end of year 2010, following which a tax income has been recognized during the first quarter of 2012 at the amount of USD 929 thousand. This income represents a write-off of excess tax liability. In addition, an interest for delayed tax payments, at the amount of USD 138 thousand was recorded accordingly as a part of this final tax assessment.

Real-estate property - The purchase agreement of a real-estate property, signed March 10, 2011, for a total amount of NIS 13,250 thousand, excluding 16% VAT (about € 2.7 million excl. VAT). On August 16, 2011, the real-estate transaction was completed and the Company received the possession rights.
The industrial property will house the activities of the three currently-leased local facilities in one single new building. Management expects that centralizing the activities in the new building will lead to economies of scale and also offer opportunities for synergies between product lines.
On July 18, 2012, the Company concluded and signed agreements with three main construction contractors (total value USD 4.5 million) in order to suit the industrial property to Payton's needs. For funding part of these investments, in October 2012, the Company received a USD 3.5 million long-term loan, against a mortgage of the building. The additional costs required for the completion are estimated to additional USD 3 million (total value USD 9 million). Company anticipates that the new facility will become fully operational by middle of year 2013.

On December 28, 2012 - Further to M.O.U signed on 22.11.12 the Company, via its fully owned UK subsidiary, has executed an agreement to purchase the business activity of Himag Solutions Ltd., a UK company, engaged in the transformers global market. The purchase relates to the Selling Company's business activity (excluding all types of liabilities and obligations) regarding production, development, marketing and distribution of magnetic elements (transformers), including, among others, fixed assets, goodwill, inventory, agreements and intellectual property rights (hereinafter: "The Purchased Activity "). The consideration for the purchased activity has been set to USD 1.2 million paid on 31.12.12 and additional consideration for the purchased activity, conditional upon achieving a minimum annual sales turnover as detailed in note 5.B. to the Financial Statements.

C. Sales

The Group major customer base is related to the automotive, power electronic and telecom market. Additional markets the Group aims are Industrial, medical and Hi-Reliability ("Hi-Rel") markets. In addition, during 2012, the Company operated to expand its activity in: North America, Japan, South Korea, India and China.
Sales for the year ended December 31, 2012 amounted to USD 17,601 thousand compared with USD 17,956 thousand for the year ended December 31, 2011. The sales in 2012 were affected by the global slowdown as well as by the termination of one major, high volume, project (customer A). However, thanks to the integration of the new business activity, purchased from Payton Technologies, the sales resulted only with a slight decrease of 2% compared to year 2011.
Revenues for the year ended 2012 consisted of recurring sales to existing customers and sales to new ones.

The Sales were generated primarily from large automotive companies, industrial companies, medical 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
	2012	2011
Customer A	*	**19.8%

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

** It is noted that a major project of this customer ended by June 2011.

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

The global slowdown effecting the Group’s performance in year 2011 continued and characterize year 2012 as well. Nowadays market fluctuations are very rapid and unpredictable, therefore 2013 trend is very hard to foresee. The global economy in Europe and in the U.S. is very unstable and the recovery in these economies will be gradual and slow. Taking into consideration a gradual slowdown in emerging economies too, global growth will be slow.
The challenge in this global economy slow growth environment is to raise productivity, to 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

During 2012 the Group participated in the following exhibitions:

- February 2012, “APEC 2012” exhibition in California, USA.
- May 2012, "PCIM" exhibition in Nierenberg, Germany.
- May 2012, “New-Tech” exhibition in Tel-Aviv, Israel.
- October 2012, "MDDMI Conference & Exhibition" in Haifa, Israel.
- November 2012, "Electronica" in Munich, Germany.

In addition, during year 2012, the Company initiated several seminars and conferences in the USA.

During 2012 the Company put intense focus to China, Japan and North America 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, and North American 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., Premo - from Spain and Himag - from U.K (staring 31.12.12 the business activity of this company was purchased by the Company- see paragraph 1.B above).

I. Order and Purchase Backlog

As at December 31, 2012 this backlog amounted to USD 6,217 thousand, and as of March 20, 2013, to USD 6,543 thousand (December 31, 2011 - USD 6,881 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 31.12.12 will be supplied until the end of September 2013.
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 2012, the Group employed 170 people (including executive officers). It is noted that as of 31.12.12 there were no employees engaged by Himag, the new fully owned UK subsidiary (all its employees employment contracts were signed during January 2013). 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 ISO9001:2000 certification for its quality system. It has UL recognition for the use of several Electrical Insulation Systems classes B, F and H in its products, also has recognition of the construction of a family of magnetic components as complying with the requirements of UL and IEC 60950 standards of safety. Payton is authorized by an accredited testing agency to apply the CE mark to many of its commercial transformers.
Payton also meets recognized international safety standards and conforms to MIL.T, CSA VDE and other standards.
The Company is 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 - TS16949:2002 and for Space & Avionic - AS9100.

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. Purchasing the business activity of Payton Technologies (effective 1.1.2012), and the Purchase of the business activity of Himag Solutions (effective 31.12.2012) are classic examples of a mean towards achieving this goal.

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

M. Coming year outlook

In the coming year (2013) Payton will face two business and operational challenges:

1. To completed the construction project of the industrial real estate property and moving all production facilities in it, in order to house all local business activities under one roof.
2. To integrate the new business activity of Himag into Payton Group – see paragraph 1.B above.

Management believes that achieving these goals will increase the group efficiency & productivity and expand its business.

Furthermore, during 2013 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. eupanding

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	▪ Global slowdown in general, and in the electronics, automotive and telecommunications sectors in particular, affects the Group's customer's demands and can cause orders and sales decrease.	▪ 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. ▪ Currency exposure with regards to the Industrial real-estate construction project, relates to construction and services costs in NIS verses equity and receivables in USD.
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, 2012

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 19,703 thousand as at December 31, 2012 compared to USD 19,291 thousand as at December 31, 2011. The cash generated from operating activity and from aUSD 3.5 million bank loan used for investing in the real-estate property and in the two business activities acquisition (see paragraph 1.B above).

Trade accounts receivable - these amounted to USD 3,519 thousand as at December 31, 2012 compared to USD 2,753 thousand as at December 31, 2011. The increase in this item is explained by the increase in sales volume, in the period near the report date, mostly as a result of the business activity purchased from Payton Technologies.

Inventory - this item amounted to USD 3,629 thousand as at December 31, 2012 compared to USD 2,638 thousand as at December 31, 2011. The increase in this item, attributed to operational assets purchased from Payton Technologies and Himag Solutions and to increase in finish goods.

Fixed assets - these amounted to USD 8,110 thousand as at December 31, 2012, compared to USD 6,186 thousand as at December 31, 2011. The increase in this item resulted mainly from investing in the industrial real-estate property in Israel (See paragraph 1.B above).

Intangible assets - as at December 31, 2012 amounted to USD 1,279 thousand compared to none as at December 31, 2011.

· An amount of USD 374 thousand arises from the surplus on the investment in Payton Technologies business activity. The fair value of the tangible assets in this acquisition was valuated in 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 905 thousand represents the total of intangible assets recognized as a result of the acquisition of the business activity of Himag Solutions (including, among others, goodwill and intellectual property rights) which will be allocated specifically after completion of a PPA (See Note 5B to the financial statements).

Trade payables - amounted to USD 1,435 thousand as at December 31, 2012 compared to USD 953 thousand as at December 31, 2011. The increase in this item resulted mainly from increase in purchases in the period near the report date, mostly due to increase in the business activity during the same period.

Current tax liability - amounted to none as at December 31, 2012 compared to USD 1,157 thousand as at December 31, 2011. The decrease in tax liability is explained mainly by a write-off of excess tax liability, at the amount of USD 929 thousand following a final tax assessment and by current tax payments.

Liabilities to banks and others - amounted to USD 3,6 thousand as at December 31, 2012 compared to none as at December 31, 2011. These liabilities comprised of a 10 years bank loan in the amount of USD 3.5 million,(USD 358 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. Additional USD 200 thousand (out of which USD 50 thousand are for a short term) represents the contingent consideration against the purchase of Himag Solutions Ltd. See Note 13 to the financial statements

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

Interest rate exposure

The Group's interest rate exposure relates mainly to its balance of cash equivalents and short-term bank deposits. These balances are mostly held in USD bearing interest rates given by banks (average rate of 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 17% of the Group's sales were in Euro.

Approximately 95% 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 88% of the Group's salaries during the reported year ended December 31, 2012 were in New Israeli Shekel ("NIS"), 12% were in USD or linked to the USD.

Currency exposure risks

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

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

During 2012, the Company conducted the construction process of the industrial real-estate property. All engagement with construction contractors are fixed in the local NIS. Therefore, for the period of the construction process, suiting the industrial property to Payton's needs, Fluctuation of the U.S. Dollar with relation to the NIS influence the accumulated value of building (fixed assets).

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 2012 the Company used derivatives, from time to time, as a tool for hedging, especially in order to hedge labor costs and construction 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 Income Statements

	Total 2012	Total 2011	Quarter 10-12/12	Quarter 7-9/12	Quarter 4-6/12	Quarter 1-3/12
Sales revenues	17,601	17,956	4,502	4,063	4,989	4,047
Cost of sales	11,248	9,571	2,802	2,589	3,294	2,563
Gross profit	*6,353*	*8,385*	*1,700*	*1,474*	*1,695*	*1,484*
Development costs	(859)	(804)	(179)	(217)	(243)	(220)
Selling & marketing expenses	(1,740)	(1,816)	(495)	(376)	(450)	(419)
General & administrative expenses	(2,345)	(2,543)	(571)	(552)	(586)	(636)
Other (expenses) income	(5)	2	(1)	-	3	(7)
Operating income	*1,404*	*3,224*	*454*	*329*	*419*	*202*
Finance income (expenses), net	411	99	190	119	59	43
Profit before income taxes	*1,815*	*3,323*	*644*	*448*	*478*	*245*
Income taxes	568	(601)	(98)	(56)	(117)	839
Net profit for the period	*2,383*	*2,722*	*546*	*392*	*361*	*1,084*

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 2012, went up by 8% compared to average rate of year 2011, reflecting a decrease in the above-mentioned costs when they are presented in USD.
About 17% of the Group's sales in 2011 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 2012 were USD 17,601 thousand compared with USD 17,956 thousand in year 2011. During year 2012 the sales were affected by the global slowdown as well as by the termination of one major, high volume, project (customer A). However, thanks to the integration of the new business activity purchased from Payton Technologies, only a slight decrease of 2% was noted.

Gross profit **-** The Group's gross results for the year ended December 31, 2012 were USD 6,353 thousand (36%), compared with USD 8,385 thousand (47%), in the year ended December 31, 2011. The decrease in the gross profit

ratio relates to the products mix and to the integrated sales of Conventional transformers, characterized by lower gross margins, together with the sales of the Planar transformers.

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, 2012 were USD 859 thousand compared with USD 804 thousand in the year ended December 31, 2011.

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, 2012 amounted to USD 1,740 thousand compared with USD 1,816 thousand in the year ended December 31, 2011. The decrease in these expenses is inline with the decrease in sales.

General& Administrative expenses **-** The Group's General & Administrative expenses for the year ended December 31, 2012 amounted to USD 2,345 thousand compared with USD 2,543 thousand in the year ended December 31, 2011. The decrease in these expenses relates mainly to the devaluation of the local currency with relation to the USD (see general note above), and to the reorganization made in Payton Group starting January 1st, 2012 (see paragraph B above).

Finance income, net - The Group's Finance income for the year ended December 31, 2012 amounted to USD 411 thousand compared with USD 99 thousand in the year ended December 31, 2011. The finance income during year 2012 resulted mainly from: profits of marketable securities, profits from finance derivatives and currency exchange rate gains.

Income Taxes **-** tax income for the year ended December 31, 2012 amounted to USD 568 thousand compare with tax expenses at the amount of USD 601 thousand for the year ended December 31, 2011. Income taxes were mostly affected by the write-off of excess tax liability following a final tax assessment.

Information regarding - Transactions with related parties *(pursuant to note 21 G to the Consolidated Financial Statements as at December 31, 2012)*

	For the year ended December 31	
	2012	**2011**
	$ thousands	**$ thousands**
Management fees to the Parent Company*	-	1,464
Management fees and related benefits to David Yativ, Technologies and Management**	477	65
Financing (income) expenses to the Parent Company	(4)	3
Fees to directors	33	33
Salaries and related benefits (6 personnel)	773	270
Sale of fixed assets to Payton Technologies	-	12
Purchase of fixed assets from the Parent Company	50	-

* Management fees to the parent company had been paid in respect of the management services used to be provided by the Parent Company, according to an agreement with the parent company (See also Note 5A regarding the organizational changes starting November 1, 2011 and January 1, 2012).
The Management fees to the Parent Company for the year ended December 31, 2011 include an amount of USD 261 thousand allocated as selling and marketing expenses.

** Management fees and related benefits to David Yativ, Technologies and Management Ltd. (see Note 18B) include an amount of USD 116 thousand (year ended December 31, 2011: USD 20 thousand) allocated as selling and marketing expenses and an amount of USD 26 thousand allocated as general and administrative expenses.

Information regarding - Balances with related parties *(pursuant to notes 9 & 15 to the Consolidated Financial Statements as at December 31, 2012)*

	December 31 2012	**December 31 2011**
	$ thousands	**$ thousands**
Related parties (included in Other accounts receivable)	227	217
Related parties (included in Other Payables)	-	(28)

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, 2012	**December 31, 2011**
Current ratio[2]	8.99	8.09
Quick ratio[3]	7.81	7.24

[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, 2012 amounted USD 1,493 thousand, compared with the cash flows generated from operating activities of USD 2,538 thousand for the year ended December 31, 2011. The decrease in cash flows generated from operating activities resulted mainly from the decrease in net profit as well as from the changes in trade receivables, trade payables and other payables.

C. Investing activities

Cash flows used for investing activities in the year ended December 31, 2012 amounted USD 8,266 thousand compared with cash flows used for investing activities of USD 4,431 thousand in the year ended December 31, 2011.

During the year 2012 the company used its investment cash flows mainly for building the industrial real-estate property, acquiring the two business activities and investing in short term bank deposits.

D. Financing activities

Cash flows generated form financing activities in the year ended December 31, 2012 amounted USD 3,442 thousand. This cash flow is originated from a 10 years bank loan in the amount of USD 3.5 million against a mortgage on the real estate property. The loan bears interest of Libor+3.7% and is repayable in monthly payments starting November 2012.

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from a long term bank loan (see also note 13 to the consolidated financial statements).

5. External factors effects

5.1 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.

5.2 During 2012, since the Company conducted the construction process of the industrial real-estate property, revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar lead to an increase/decrease (respectively) in the accumulated value of the building (fixed assets). All engagement with construction contractors are fixed in the local NIS, therefore costs allocated as fixed assets were affected.

5.3 Devaluation of the Euro in relation to the U.S. Dollar leads to a decrease in company's assets in Euro.

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, 2012 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.

Rishon Lezion, March 28, 2013.

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, 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards 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 frauds 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 relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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

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, 2012, and of its 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)

March 28, 2013

Consolidated Statements of Financial Position as at December 31

	Note	2012 $ thousands	2011 $ thousands
Current assets			
Cash and cash equivalents	6	**7,684**	10,964
Short-term deposits	7	**10,837**	7,073
Marketable securities held for trading	8	**1,182**	1,254
Trade accounts receivable	9	**3,519**	2,753
Other accounts receivable	9	**469**	314
Current tax assets		**180**	21
Inventory	10	**3,629**	2,638
Total current assets		**27,500**	25,017
Non-current assets			
Fixed assets	11	**8,110**	6,186
Intangible assets	12	**1,279**	-
Deferred taxes	22	**125**	94
Total non-current assets		**9,514**	6,280
Total assets		**37,014**	31,297

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

March 28, 2013

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

	Note	2012 $ thousands	2011 $ thousands
Liabilities and equity			
Current liabilities			
Liabilities to banks and others	13	**408**	-
Trade payables	14	**1,435**	953
Other payables	15	**879**	737
Current tax liability		**-**	1,157
Employee benefits	16	**336**	244
Total current liabilities		**3,058**	3,091
Non-current liabilities			
Liabilities to banks and others	13	**3,242**	-
Employee benefits	16	**399**	274
Total non-current liabilities		**3,641**	274
Equity			
Share capital	20	**4,836**	4,836
Share premium		**8,993**	8,993
Retained earnings		**16,486**	14,103
Total equity		**30,315**	27,932
Total liabilities and equity		**37,014**	31,297

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	Note	2012 $ thousands	2011 $ thousands
Revenues	21A	**17,601**	17,956
Cost of sales	21B	**(11,248)**	(9,571)
Gross profit		**6,353**	8,385
Development costs		**(859)**	(804)
Selling and marketing expenses	21C	**(1,740)**	(1,816)
General and administrative expenses	21D	**(2,345)**	(2,543)
Other (expenses) income	21E	**(5)**	2
Operating income		**1,404**	3,224
Finance income	21F	**581**	246
Finance expenses	21F	**(170)**	(147)
Finance income, net		**411**	99
Profit before income taxes		**1,815**	3,323
Income taxes	22	**568**	(601)
Profit for the year		**2,383**	2,722
Other comprehensive income			
Net change in fair value of available-for-sale assets transferred to profit or loss		**-**	60
Net change in fair value of available-for-sale assets		**-**	(13)
Total other comprehensive income		**-**	47
Total comprehensive income for the year		**2,383**	2,769
Basic earnings per ordinary share (in $)	23	**0.13**	0.15

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

Consolidated Statement of Changes in Equity for the Year Ended December 31

	Share capital		**Share premium**	**Capital fund for available-for-sale assets**	**Retained earnings**	**Total**
	Number of shares	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Balance at January 1, 2011	17,670,775	4,836	8,993	(47)	11,381	25,163
Total comprehensive income for the year						
Profit for the year	-	-	-	-	2,722	2,722
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	60	-	60
Net change in fair value of available-for-sale assets	-	-	-	(13)	-	(13)
Total comprehensive income for the year	-	-	-	47	2,722	2,769
Balance at December 31, 2011	17,670,775	4,836	8,993	-	14,103	27,932
Total comprehensive income for the year						
Profit for the year	**-**	**-**	**-**	**-**	**2,383**	**2,383**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**2,383**	**2,383**
Balance at December 31, 2012	**17,670,775**	**4,836**	**8,993**	**-**	**16,486**	**30,315**

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

Consolidated Statements of Cash Flows for the year ended December 31

	Note	2012 $ thousands	2011 $ thousands
Operating activities			
Profit for the year		**2,383**	2,722
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation and amortization	11, 12	**596**	324
Income taxes	22	**(568)**	601
Capital loss (gain) on sale of fixed assets	21E	**5**	(2)
Increase in employee benefits	16	**175**	24
(Increase) decrease in trade accounts receivables	9	**(19)**	2,675
Increase in other accounts receivable	9	**(52)**	(238)
Increase in inventory	10	**(269)**	(393)
Increase (decrease) in trade payables	14	**160**	(1,267)
Increase (decrease) in other payables	15	**67**	(1,053)
Finance income, net	21F	**(302)**	(120)
Interest received	21F	**234**	259
Interest paid	21F	**(138)**	-
Tax paid	22	**(779)**	(994)
Cash flows generated from operating activities		**1,493**	2,538
Investing activities			
Proceeds from sale of marketable securities held for trading	8	**200**	319
Proceeds from sale of marketable securities available for sale		**-**	940
Investment in short-term deposits, net	7	**(3,766)**	(1,027)
Investment in fixed assets	11	**(2,100)**	(4,684)
Proceeds from sale of fixed assets	11	**37**	21
Acquisition of business activity from related party	5	**(1,437)**	-
Acquisition of other business activity	5	**(1,200)**	-
Cash flows used for investing activities		**(8,266)**	(4,431)
Financing activities			
Loan received from bank	13	**3,500**	-
Repayment of loan	13	**(58)**	-
Cash flows generated from financing activities		**3,442**	-
Net decrease in cash and cash equivalents		**(3,331)**	(1,893)
Cash and cash equivalents at beginning of the year		**10,964**	12,932
Effect of exchange rate fluctuations on cash held		**51**	(75)
Cash and cash equivalents at end of the year		**7,684**	10,964

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 and its headquarters are located at 14 Hahoma Street, Rishon Le Zion, Israel. 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, 2012 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group mainly develops, manufactures and markets planar power transformers for high density, high frequency off-line power supplies and operates abroad through its subsidiary and distributors. Its manufacturing includes the manufacture of printed circuits.

On January 1, 2012, the Group acquired the full business activity of Payton Technologies (1991) Ltd.
In addition, on December 31, 2012, the Group acquired the business activity of Himag Solutions Ltd., via Himag Planar Magnetics Ltd., a fully owned subsidiary, incorporated during December 2012.

See also Note 5 regarding the acquisition of business activities.

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.

Note 2 - Basis of Preparation

A. Statement of compliance

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

The consolidated financial statements were authorized for issue by the Company's Board of Directors on March 28, 2013.

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, at fair value through profit or loss;
* Inventory measured at the lower of cost or net realizable value;
* Deferred tax assets and liabilities;
* Assets and liabilities for employee benefits.

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)

F. Statement of financial position

In the consolidated financial statements as at December 31, 2012:

1. Immaterial amounts of current tax assets, which were presented in past periods as part of other accounts receivable, are presented separately within current assets.

2. Immaterial amounts of current employee benefits, which were presented in past periods as part of other payables, are presented separately within current liabilities.

The statement of financial position and the statement of cash flows as at December 31, 2011 are presented accordingly.

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, except as explained in Note 2F, Basis of Preparation, under the section addressing change in classification.

A. Basis of consolidation

1. Business combinations

Business combinations arising from transfers of business activities 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 is the power to govern the financial and operating policies of the operation acquired as to obtain benefits from the activities.

The Group recognizes goodwill at 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.

Note 3 - Significant Accounting Policies (cont'd)

A. Basis of consolidation (cont'd)

2. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control 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 currencies 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

1. Non-derivative financial assets (cont'd)

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.

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 or is designated as such upon initial recognition. Upon initial recognition 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.

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. The Group's investments in certain debt securities are classified as available-for-sale financial assets. Upon initial recognition and in subsequent periods, these investments are measured at fair value and changes therein, other than impairment losses and the accrual of effective interest on available-for-sale debt instruments, are recognized directly in other comprehensive income and presented within equity in a reserve for available-for-sale financial assets. When an investment is derecognized, the cumulative gain or loss in the reserve for available-for-sale financial assets is transferred to profit or loss.

The Group's investments in available for sale assets had been materialized during 2011 (See Note 21F).

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

2. Non-derivative 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 derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

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.

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

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

Derivatives that do not serve hedging purposes
Derivatives are recognized initially at fair value; attributable transaction costs are recognized in profit and loss as incurred.
The changes in fair value of these derivatives are recognized immediately in profit or loss, as financing income or expense.

4. CPI-linked assets and liabilities that are not measured at fair value

The value of CPI-linked financial assets and liabilities, which are not measured at fair value, is remeasured every period in accordance with the actual increase/decrease in the CPI.

5. 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.

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 lease. 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.

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, or other amount substituted for cost, less its residual value.

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

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

3. Depreciation (cont'd)

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.

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

Buildings	30 years	
Machinery and equipment	3-7 years	(mainly 7 years)
Motor vehicles	7 years	
Computers	3 years	
Office equipment	7-17 years	(mainly 14 years)
Land under finance lease	70 years	

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

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

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

The estimated useful lives for the current period are as follows:

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

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.

Impairment losses on available-for-sale financial assets are recognized by transferring the cumulative loss that has been recognized in a capital reserve to profit or loss. The cumulative loss that is reclassified from other comprehensive income to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of financing income.

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 and available-for-sale financial assets that are debt securities, 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.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For 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").

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.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the cash-generating unit to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its 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 to reduce the carrying amounts of assets in the cash-generating unit on a pro rata basis.

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

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.

Note 3 - Significant Accounting Policies (cont'd)

I. Employee benefits (cont'd)

1. Post-employment benefits (cont'd)

(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.

(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 discount rate is the yield at the reporting date on Government debentures denominated in the same currency, 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 in the framework 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.

The Group recognizes immediately all actuarial gains and losses arising from defined benefit plans.

Interest cost and expected return on plan assets that were recognized in profit or loss 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.

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.

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.

When the credit period is longer than the accepted credit period in the industry, the Group recognizes the future consideration discounted to its present value using the risk rate of the customer. The difference between the fair value and the nominal amount of the future consideration is recognized as interest revenue over the excess credit period.

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.

Transfers of risks and rewards vary depending on the individual terms of the contract of sale. 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.

L. 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.

Note 3 - Significant Accounting Policies (cont'd)

M. Financing income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains. 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 losses on disposal of available-for-sale assets, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets (other than losses on trade receivables that are presented under general and administrative expenses).

In the statements 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.

N. Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to a business combination, or are recognized directly in equity or in other comprehensive income to the extend 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

N. Income tax (cont'd)

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 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.

O. Earnings per share

The Group presents basic earnings per share (EPS) data for its ordinary shares. Basic EPS calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

P. Segment reporting

An operating segment is a component of the Group that meets three conditions as follows:

1. It engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components;
2. Its operating results are reviewed regularly by the Group's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and
3. Discrete financial information is available in its respect.

The Group has one operating segment. Management observe the operating data up to the net profit, in consistent of the consolidated financial reports presented in accordance with IFRS.

Q. New standards and interpretations not yet adopted

1. IFRS 9 (2010), *Financial Instruments* (hereinafter – "the Standard")

IFRS 9 (2010) replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

In accordance with IFRS 9 (2010), there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

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

1. IFRS 9 (2010), *Financial Instruments* (hereinafter – "the Standard") (cont'd)

Nevertheless, IFRS 9 (2010) allows an entity on the initial recognition of an equity instrument not held for trading to elect irrevocably to present fair value changes in the equity instrument in other comprehensive income where no amount so recognized is ever classified to profit or loss at a later date. IFRS 9 (2010) generally preserves the instructions regarding classification and measurement of financial liabilities that are provided in IAS 39. Nevertheless, unlike IAS 39, IFRS 9 (2010) requires as a rule that the amount of change in the fair value of financial liabilities designated at fair value through profit or loss, other than loan grant commitments and financial guarantee contracts, attributable to changes in the credit risk of the liability, be presented in other comprehensive income, with the remaining amount being included in profit or loss.

The Standard is effective for annual periods beginning on or after January 1, 2015 but may be applied earlier, subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the Standard. The Standard is to be applied retrospectively other than in a number of exceptions as indicated in the transitional provisions included in the Standard.

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

2. Amendment to IAS 19, *Employee Benefits* (hereinafter – "the Amendment")

The amendment to IAS 19 introduces a number of changes to the accounting treatment of employee benefits, including the recognition of all actuarial gains and losses immediately through other comprehensive income, and it eliminates the corridor method and the method of immediately recognizing actuarial gains and losses in profit or loss. Furthermore, the interest that is recognized in profit or loss will be calculated on the balance of the net defined benefit liability (asset), according to the discount rate that is used to measure the liability. In addition, employee benefits will be classified as short or long term depending on when the entity expects the benefits to be wholly settled.

The Amendment is applicable retrospectively (excluding certain exceptions stated in the Amendment) for annual periods beginning on or after January 1, 2013.

In the opinion of the Group, application of the amendment to IAS 19 will not have a material effect on the financial statements.

Note 4 - Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Note 4 - Determination of Fair Values (cont'd)

A. Fixed assets

The fair value of fixed assets recognized as a result of a business combination is based on market values. The market value of fixed assets is the estimated amount for which a fixed asset could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction wherein the parties each acted knowledgeably.

B. Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

C. Investments in equity and debt securities

The fair value of financial assets at fair value through profit or loss and available-for-sale financial assets is determined by reference to their quoted closing bid price at the reporting date. If there is no available quote, the fair value is measured according to external valuations.
Regarding fair value hierarchy, see Note 19 on financial instruments.

D. Derivatives

The fair value of forward exchange contracts is based on their quoted price, if available. If a quoted price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using interest curves appropriate for measuring derivatives that are based on short-term Libor interest rates and long-term interest rate swaps, whereas the fair value of options is estimated according to the Black-Scholes formula.

E. Contingent consideration in business combination

The fair value of contingent consideration is calculated at the time of the business combination using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). When the contingent consideration is long-term in nature, the liability is discounted to present value using the market interest rate at the reporting date. In subsequent periods, the fair value of contingent consideration classified as a financial liability is measured in the same manner at each reporting date, while changes are recognized in profit or loss as finance expense or income.

Note 5 - Acquisition of Business Activities

A. Acquisition of business activity from related party

On January 1, 2012 (hereinafter - the acquisition date) the Group acquired the full business activity of Payton Technologies (1991) Ltd (hereinafter - Payton Technologies), a sister-company fully owned by the parent company (Payton Industries), for the amount of NIS 5.6 million (January 1, 2012 - USD 1.466 million), of which an amount of USD 1,437 thousand was paid in cash and the balance was deducted from Payton Technologies' balance due to Payton Planar as at January 1, 2012.

By merging the business activity of Payton Technologies, which markets and sells conventional transformers, into Payton Planar, the Group will become a "one stop shop" for transformers of all kinds and will be able to answer both planar and conventional magnetic needs. Furthermore, merging the two business activities, combined with their centralization in the new building, will lead to economies of scale and also offer opportunities for synergies between the products.

The following summarizes the recognized amounts of identifiable assets acquired and liabilities assumed at the acquisition date based on an assessment prepared by an external, independent appraiser:

	$ thousands
Trade and other receivables	**878**
Inventories	**392**
Intangible assets (1)	**579**
Fixed assets	**80**
Trade and other payables	**(421)**
Current employee benefits	**(28)**
Non-current employee benefits	**(14)**
Total net operational assets	**1,466**

(1) Intangible assets recognized as a result of the acquisition are as follows:

	Estimated useful Life	$ thousands
Production files	5 years	**440**
Order and purchase backlog	0.5 years	**117**
Goodwill		**22**
		579

B. Acquisition of other business activity

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

The purchase relates to the business activity (excluding all types of liabilities and obligations) regarding production, development, marketing and distribution of magnetic elements (transformers), including, among others, fixed assets, goodwill, inventory, agreements and intellectual property rights.

Note 5 - Acquisition of Business Activities (cont'd)

B. Acquisition of other business activity (cont'd)

The consideration for the purchased activity has been set to USD 1.2 million. 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") 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, as at December 31, 2012 the Group recorded a financial liability for contingent consideration in the amount of USD 200 thousand, based on the fair value of the contingent consideration at the reporting date.

Identifiable assets acquired (based on provisional amounts as described hereunder):

	$ thousands
Inventories	**330**
Intangible assets	**905**
Fixed assets	**165**
Net identifiable assets	**1,400**

The fair value of the intangible assets (including, among others, goodwill and intellectual property rights) and the contingent consideration for the purchased activity have been determined provisionally pending completion of a Purchase Price Allocation ("PPA") prepared by an external independent appraiser.

Note 6 - Cash and Cash Equivalents

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Bank balances	**1,957**	2,695
Call deposits	**5,727**	8,269
	7,684	10,964

The Group's exposure to interest rate and currency risks concerning cash and cash equivalent is disclosed in Note 19 on financial instruments.

Note 7 - Deposits

Short term deposits

Short term deposits in dollars, bearing interest at an annual rate of approximately 0.45% - 1.6% (December 31, 2011: 2.05% - 2.9%).

The Group's exposure to interest rate and currency risks concerning deposits is disclosed in Note 19 on financial instruments.

Note 8 - Marketable Securities Held for Trading

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Mutual funds	**435**	399
Bonds	**363**	347
Preferred stocks 6.1% - 10.5%	**384**	508
	1,182	1,254

The Group's exposure to interest rate and currency risks and a sensitivity analysis for financial assets are disclosed in Note 19 on financial instruments.

Note 9 - Trade and Other Accounts Receivable

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Trade accounts receivable		
Open accounts	**3,485**	2,787
Checks payables	**38**	-
	3,523	2,787
Less provision for doubtful debts	**(4)**	(34)
	3,519	2,753
Other accounts receivable		
Government institutions	**80**	-
Derivative instruments	**91**	8
Related parties	**227**	217
Other receivables	**71**	89
	469	314

The Group's exposure to credit and currency risks concerning trade and other accounts receivable is disclosed in Note 19 on financial instruments.

Note 10 - Inventory

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Raw and packing material	**2,273**	1,854
Work-in-process	**318**	192
Finished products	**1,038**	592
	3,629	2,638

Note 11 - Fixed Assets

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Improvements in leasehold	Land and Buildings	Total
	$ thousands					
December 31, 2012						
Cost						
Balance as of January 1, 2012	**2,875**	**211**	**790**	**389**	**5,143**	**9,408**
Business acquisition	**131**	**30**	**53**	**31**	**-**	**245**
Acquisitions	**153**	**127**	**74**	**-**	**1,758**	**2,112**
Disposals	**(7)**	**(43)**	**-**	**-**	**-**	**(50)**
Balance as of December 31, 2012	**3,152**	**325**	**917**	**420**	**6,901**	**11,715**
Accumulated depreciation						
Balance as of January 1, 2012	**2,022**	**39**	**692**	**371**	**98**	**3,222**
Depreciation for the year	**225**	**46**	**58**	**16**	**46**	**391**
Disposals	**(7)**	**(1)**	**-**	**-**	**-**	**(8)**
Balance as of December 31, 2012	**2,240**	**84**	**750**	**387**	**144**	**3,605**
Carrying amounts as of December 31, 2012	**912**	**241**	**167**	**33**	**6,757**	**8,110**

Note 11 - Fixed Assets (cont'd)

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Improvements in leasehold	Land and Buildings	Total
	$ thousands					
December 31, 2011						
Cost						
Balance as of January 1, 2011	2,546	185	721	389	917	4,758
Acquisitions	329	66	72	-	4,226	4,693
Disposals	-	(40)	(3)	-	-	(43)
Balance as of December 31, 2011	2,875	211	790	389	5,143	9,408
Accumulated depreciation						
Balance as of January 1, 2011	1,823	33	645	356	65	2,922
Depreciation for the year	199	29	48	15	33	324
Disposals	-	(23)	(1)	-	-	(24)
Balance as of December 31, 2011	2,022	39	692	371	98	3,222
Carrying amounts as of December 31, 2011	853	172	98	18	5,045	6,186

A. Real Estate Property Purchase

On March 10, 2011 the Company signed a purchase agreement of a real-estate property for a total amount of NIS 13,250 thousand, excluding 16% VAT (about € 2.7/USD 3.7 million excluding VAT). The property land is 4,500 square meters and located in the central area of Israel.
On August 16, 2011, the transaction was completed and the Company received the possession rights. The industrial property will house the activities of the three currently-leased local facilities in one single new building.

As at December 31, 2012 the investment in the real estate property, including additional costs and capitalized financing expenses in the amount of USD 28 thousand, amounted to USD 5,984 thousand (December 31, 2011: USD 4,226 thousand). The additional costs required for the completion and for the move are estimated to additional USD 3 million (total value USD 9 million).
In October 2012, the Company has taken a bank loan against a mortgage on the real estate property (see Note 13).
Company plans that by the middle of 2013 the building will be fully operational.

Note 11 - Fixed Assets (cont'd)

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

The property land which has a carrying amount of USD 1,409 thousand as at December 31, 2012 (December 31, 2011: USD 1,430 thousand) is leased from the Israel Lands Administration under a capitalized lease ending on June 30, 2032. The Company has the right to extend the lease period by another 49 years under certain circumstances.

C. Acquisition of fixed assets on credit

During the year ended December 31, 2012, the Company acquired fixed assets on credit in the amount of USD 19 thousand (December 31, 2011: USD 15 thousand).

D. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2012 the original cost of such assets is USD 2,537 thousand (December 31, 2011: USD 2,474 thousand).

Note 12 - Intangible Assets

	Production files	Order and Purchase backlog	Goodwill	Other(*)	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost					
Balance as at January 1, 2012	-	-	-	-	-
Acquisitions	**440**	**117**	**22**	**905**	**1,484**
Balance as at December 31, 2012	**440**	**117**	**22**	**905**	**1,484**
Amortization and impairment losses					
Balance as at January 1, 2012	-	-	-	-	-
Amortization for the year	**88**	**117**	-	-	**205**
Balance as at December 31, 2012	**88**	**117**	-	-	**205**
Carrying amounts					
January 1, 2012	-	-	-	-	-
December 31, 2012	**352**	-	**22**	**905**	**1,279**

(*) Total intangible assets recognized as a result of the acquisition of the business activity of Himag Solutions Ltd. (including, among others, goodwill and intellectual property rights) will be allocated specifically after completion of a PPA (See Note 5B).

Note 13 - Liabilities to Banks and Others

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Current liabilities		
Current portion of liabilities to banks (1)	**358**	-
Contingent consideration (2)	**50**	-
	408	-
Non-current liabilities		
Liabilities to banks (1)	**3,092**	-
Contingent consideration (2)	**150**	-
	3,242	-
	3,650	-

(1) In October 2012, the Company has taken a 10 years bank loan in the amount of USD 3.5 million against a mortgage on the real estate property (See Note 18D).
The loan bears interest of Libor+3.7% and is repayable in monthly payments starting November 2012.

(2) See Note 5B.

The Group's exposure to interest rate, currency and liquidity risks and maturities concerning liabilities to banks and others is disclosed in Note 19 on the financial instruments.

Note 14 - Trade Payables

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Open accounts	**1,428**	951
Checks payables	**7**	2
	1,435	953

The Group's exposure to currency and liquidity risks concerning trade payables is disclosed in Note 19 on financial instruments.

Note 15 - Other Payables

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Employees and related benefits	**479**	433
Related parties	**-**	28
Derivative instruments	**-**	7
Other payables and accrued expenses	**400**	269
	879	737

The Group's exposure to currency and liquidity risks concerning other payables is disclosed in Note 19 on financial instruments.

Note 16 - Employee Benefits

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

Composition of employee benefits:

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Presented under current employee benefits:		
Short-term employee benefits	**336**	244
Presented under non-current employee benefits:		
Recognized liability for defined benefit plan	**399**	274
Total employee benefits	**735**	518

A. Employees transferred

According to the Purchase Agreement of the business activity of Payton Technologies (see Note 5A), all key executive officers, employed by the parent company are employed directly by the Company (with no significant changes in the costs allocated to the Company) starting January 1, 2012. In addition and as part of those organizational changes, effective November 1, 2011, Mr. Doron Yativ, who used to be employed by the Parent Company, is employed directly by the Company as C.E.O.

B. Post-employment benefit plans - defined benefit plan

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

	December 31 2012	December 31 2011
	$ thousands	$ thousands
Present value of defined benefit obligation	**1,130**	661
Fair value of plan assets	**(731)**	(387)
Recognized liability for defined benefit obligations	**399**	274

Note 16 - Employee Benefits (cont'd)

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

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

	2012 $ thousands	2011 $ thousands
Defined benefit obligations as at January 1	**661**	580
Benefits paid	**(8)**	(4)
Current service costs and interest costs	**126**	62
Changes in respect of foreign exchange differences	**20**	(41)
Actuarial losses (gains)	**143**	(31)
Acquisition of business activity	**86**	-
Employees transferred (see A above)	**102**	95
Defined benefit obligation as at December 31	**1,130**	661

2. Movements in plan assets

	2012 $ thousands	2011 $ thousands
Fair value of plan assets as at January 1	**387**	330
Contributions by employer	**66**	30
PV of contributions	**1**	-
Expected return on plan assets	**35**	16
Changes in respect of foreign exchange differences	**12**	(23)
Asset return expense	**(15)**	(9)
Actuarial gains (losses)	**85**	(10)
Acquisition of business activity	**72**	-
Employees transferred (see A above)	**88**	53
Fair value of plan assets as at December 31	**731**	387

Note 16 - Employee Benefits (cont'd)

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

3. Expenses recognized in profit or loss

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Current service costs and interest costs	**126**	62
Expected return on plan assets	**(35)**	(16)
Asset return expense	**15**	9
PV of contributions	**(1)**	-
Net actuarial losses (gains) in the year	**58**	(21)
Net change in respect of foreign exchange differences	**8**	(18)
Employees transferred (see A above)	**14**	42
	185	58
The expense is recognized in the following line items in the income statement:		
Cost of sales	**39**	16
Development expenses	**36**	15
Selling and marketing expenses	**34**	2
Administrative expenses	**68**	43
Finance expenses (income)	**8**	(18)
	185	58

4. Actual return

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Actual return on plan assets	**59**	15

5. Actuarial assumptions

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

i. Until the end of 2011 the mortality and disability rates were based on circular letter 2007-3-6. In December of 2012, the Ministry of Finance published a circular letter 2012-3-4 revising the mortality and disability rates based on recent experience in the local market as slightly as better estimates.

Note 16 - Employee Benefits (cont'd)

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

5. Actuarial assumptions (cont'd)

a. (cont'd)

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 were felt to be reasonable. With the progress of time and the consequent accumulation of experience, these assumptions should be periodically reviewed. Over the last few years the assumptions did not create excessive actuarial deviation.

c. Retirement Age: 67 for men and for women, based on the employee's date of birth, the retirement age increases from 62 to 64.

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

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

Valuation Date	Discount Rate
December 31, 2012	**1.67%**
December 31, 2011	2.43%

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

iii. The expected real return on individual assets for 2012, as of January 1, 2012 is 2.43% (as of January 1, 2011 – 2.20%).

Note 16 - Employee Benefits (cont'd)

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

6. Historical information

	December 31				
	2012	**2011**	**2010**	**2009**	**2008**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Present value of the defined benefit obligation	**1,130**	661	580	468	378
Fair value of plan assets	**(731)**	(387)	(330)	(274)	(226)
Deficit in the plan	**399**	274	250	194	152
Experience adjustment - actuarial gains (losses) on plan liabilities	**(144)**	31	(24)	(24)	57
Experience adjustment - actuarial gains (losses) on plan assets	**85**	(10)	(1)	3	(116)

The Group expects USD 168 thousand in contributions to be paid to the funded defined benefit plan in 2013.

C. Post-employment benefit plans – defined contribution plan

	For the year ended December 31	
	2012	**2011**
	$ thousands	**$ thousands**
Amount recognized as expense in respect of defined contribution plan	**330**	319

D. Short-term employee benefits

	December 31 2012	**December 31 2011**
	$ thousands	**$ thousands**
Provision for vacation and recreation	**306**	244
Liabilities for bonus	**30**	-
	336	244

Note 17 - Investments in Subsidiary Companies

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2012:

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 does not bear any interest.

Note 18 - Commitments, Contingent Liabilities and Liens

A. The Company has a commitment for a monthly rent of about USD 26 thousand and USD 7 thousand for its premises in Israel up to the end of June 2013 and December 2018 accordingly.

B. According to a Management Service Agreement between the Company and David Yativ Technologies and Management Ltd. (a private company fully owned by Mr. David Yativ, Company’s Active Chairman), the Company has a commitment to pay 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, the Company’s CEO is entitled to a yearly bonus calculated as 1.6%, 1.8% and 2% of the annual profit before income taxes and before any other profit based bonus for the years 2012, 2013 and 2014, accordingly.

D. As security for Company’s liability to the bank in respect of a long-term loan that as at December 31, 2012 amounts to USD 3,450 thousand, 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.

Note 19 - 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, interest and other market price 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.

Note 19 - Financial Instruments (cont'd)

B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables, deposits and investment securities.

The Group's revenues derive from sales to customers in Israel, Asia, Europe, America and other places around the world. Management of the Company regularly monitors the customers balances and includes in the financial statements specific provisions for doubtful debts 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 by means of 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	
	2012	2011
	Carrying amount	
	$ thousands	$ thousands
Cash and cash equivalents	**7,684**	10,964
Held for trading financial assets	**363**	347
Short-term deposits	**10,837**	7,073
Trade accounts receivable	**3,519**	2,753
Other accounts receivable	**227**	217
	22,630	21,354

The aforementioned balances are presented under the items of cash and cash equivalents, deposits, trade receivables, other receivables and marketable securities.

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

	December 31	
	2012	2011
	Carrying amount	
	$ thousands	$ thousands
Israel	**6,676**	10,716
U.S.A.	**1,008**	248
	7,684	10,964

Note 19 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk (cont'd)

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

	December 31	
	2012	**2011**
	Carrying amount	
	$ thousands	**$ thousands**
U.S.A.	**363**	347

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

	December 31	
	2012	**2011**
	Carrying amount	
	$ thousands	**$ thousands**
Israel	**8,679**	6,367
U.S.A.	**2,158**	706
	10,837	7,073

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

	December 31	
	2012	**2011**
	Carrying amount	
	$ thousands	**$ thousands**
Israel	**941**	245
Asia	**580**	468
Europe	**554**	792
U.S.A.	**1,441**	1,229
Canada	**3**	19
	3,519	2,753

The Group's most significant customers account for:

	December 31	
	2012	**2011**
	Carrying amount	
	$ thousands	**$ thousands**
Customer A	*	140

* Less than 10% of the Group's consolidated sales (see Note 21A).

Note 19 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

2. Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31			
	2012		2011	
	Gross	Impairment	Gross	Impairment
	$ thousands	$ thousands	$ thousands	$ thousands
Not past due	**2,302**	**-**	1,832	-
Past due 0-30 days	**1,023**	**-**	758	-
Past due 31-120 days	**183**	**-**	165	(21)
Past due 121 days to one year	**15**	**(4)**	32	(13)
	3,523	**(4)**	2,787	(34)

C. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 and excluding the impact of netting agreements:

	December 31, 2012						
	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	**1,435**	**1,435**	**1,435**	**-**	**-**	**-**	**-**
Other payables	**400**	**400**	**400**	**-**	**-**	**-**	**-**
Liabilities to banks and others	**3,650**	**4,401**	**242**	**293**	**524**	**1,484**	**1,858**
	5,485	**6,236**	**2,077**	**293**	**524**	**1,484**	**1,858**

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 19 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

	December 31, 2011		
	Carrying amount	Contractual cash flows	6 months or less
	$ thousands		
Non-derivative financial liabilities			
Trade payables	953	953	953
Other payables	297	297	297
	1,250	1,250	1,250

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. Linkage and foreign currency risk

(a) The exposure to linkage and 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 material. 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.

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

	December 31, 2012			
	Dollar	NIS	Other*	Total
	$ thousands			
Current assets:				
Cash and cash equivalents	**6,210**	**841**	**633**	**7,684**
Marketable securities and deposits	**11,200**	**-**	**-**	**11,200**
Trade and other receivables	**2,756**	**577**	**413**	**3,746**
Current liabilities:				
Liabilities to banks and others	**(408)**	**-**	**-**	**(408)**
Trade payables	**(993)**	**(431)**	**(11)**	**(1,435)**
Other payables	**(157)**	**(210)**	**(33)**	**(400)**
Non-current liabilities:				
Liabilities to banks and others	**(3,242)**	**-**	**-**	**(3,242)**
	15,366	**777**	**1,002**	**17,145**

* Mainly Euro

Note 19 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Linkage and foreign currency risk (cont'd)

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

	December 31, 2011			
	Dollar	NIS	Other*	Total
	$ thousands			
Current assets:				
Cash and cash equivalents	9,233	569	1,162	10,964
Marketable securities and deposits	7,420	-	-	7,420
Trade and other receivables	1,946	462	562	2,970
Current liabilities:				
Trade payables	(569)	(378)	(6)	(953)
Other payables	(147)	(128)	(22)	(297)
	17,883	525	1,696	20,104

* Mainly Euro.

As at December 31, 2012 the Group has open future transactions as following:

1. Purchase of an option to sell USD 2,500 thousand for NIS 9,675 thousand, the market value of which was estimated at an income of USD 92.

2. Sale of an option to purchase USD 2,500 thousand for NIS 10,000 thousand, the market value of which was estimated at an expense of USD (1).

Information regarding significant exchange rates:

	Year ended December 31		Year ended December 31	
	2012	2011	2012	2011
	Rate of change		Reporting date spot rate	
	%	%	NIS	NIS
1 US dollar	**(2.30)**	7.66	**3.733**	3.821

	Year ended December 31		Year ended December 31	
	2012	2011	2012	2011
	Rate of change		Reporting date spot rate	
	%	%	Euro	Euro
1 US dollar	**(1.94)**	3.34	**0.759**	0.774

Note 19 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Linkage and foreign currency risk (cont'd)

(b) Sensitivity analysis

A weakening of the USD against the following currencies as at December 31, 2012 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 2011.

	December 31, 2012	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	**39**	**39**
5% in the Euro	**46**	**46**

	December 31, 2011	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	26	26
5% in the Euro	84	84

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 and short-term deposits (mostly in US dollars) which are bearing interest rates given by or affected by banks in the range of 0.18%-1.85% 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	
	2012	2011
	Carrying amount	
	$ thousands	$ thousands
Fixed rate instruments		
Financial assets	**16,927**	15,689
Variable rate instruments		
Financial liabilities	**3,450**	-

Note 19 - 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, and the Group does not designate derivatives (interest rate swaps) as hedging instruments under a fair value hedge accounting model. Therefore a change in interest rates at the reporting date would not affect profit or loss.

(c) Cash flow sensitively analysis for variable rate instruments

A change in the interest rate at the end of the reporting period would have affected only the interest costs capitalized to the fixed assets (no effect on 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 banks and others are the same or proximate to their fair value.
For further information on the basis for determining fair value see Note 4 on determination of 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, 2012		
	Level 1	Level 3	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	**1,182**	**-**	**1,182**
Contingent consideration	**-**	**200**	**200**

	December 31, 2011		
	Level 1	Level 3	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	1,254	-	1,254

Contingent consideration in business combination - See Note 5B regarding acquisition of business activity.

Note 20 - Share Capital

Composition

	Number of shares	
	Authorized	Issued and paid
	December 31, 2012 and 2011	
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 21 - Income Statement Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Export	**16,268**	17,278
Local	**1,333**	678
	17,601	17,956

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	
	2012	2011
	%	%
Customer A	*	20

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

Note 21 - Income Statement Data (cont'd)

B. Cost of sales

1. Cost of sales

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Materials consumed	**6,487**	4,959
Salaries and related benefits	**3,530**	3,429
Depreciation	**461**	228
Other manufacturing expenses	**1,095**	1,161
Change inventory of finished products and work in process	**(325)**	(206)
	****11,248**	9,571

** Includes inventory write-off of USD 89 thousand and USD 60 thousand for the years ended December 31, 2012 and 2011, respectively.

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	
	2012	2011
	%	%
Supplier A	**30**	50
Supplier B	**23**	*

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

C. Selling and marketing expenses

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Salaries and related benefits	**752**	613
Sales commissions	**653**	874
Advertising and marketing	**61**	98
Exhibits and travel abroad	**245**	208
Other	**29**	23
	1,740	1,816

Note 21 - Income Statement Data (cont'd)

D. General and administrative expenses

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Salaries and related benefits	**1,013**	560
Office rent, maintenance and communications	**171**	135
Depreciation	**135**	96
Professional services	**270**	147
Management fees	**335**	1,248
Other	**421**	357
	2,345	2,543

E. Other (expenses) income

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Capital (loss) gain on sale of fixed assets	**(5)**	2

F. Financial result

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Financing income		
Interest income from bank deposits	**189**	241
Income from marketable securities held for trading	**172**	-
Interest income from marketable securities available for sale	**-**	5
Exchange rate differences, net	**120**	-
Interest from transactions with parent company	**4**	-
Other	**96**	-
	581	246
Financing expenses		
Bank charges and others	**31**	31
Loss from sale of marketable securities available for sale	**-**	60
Exchange rate differences, net	**-**	23
Interest on transactions with parent company	**-**	3
Interest for delayed tax payments	**138**	-
Other	**1**	30
	170	147

Note 21 - Income Statement Data (cont'd)

G. Transactions with related parties

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Management fees to the Parent Company*	**-**	1,464
Management fees and related benefits to David Yativ, Technologies and Management**	**477**	65
Financing (income) expenses to the Parent Company	**(4)**	3
Fees to directors	**33**	33
Salaries and related benefits (6 personnel)	**773**	270
Sale of fixed assets to Payton Technologies	**-**	12
Purchase of fixed assets from the Parent Company	**50**	-

Regarding balances with related parties - see Notes 9, 15.
Regarding acquisition of business activity from Payton Technologies - see Note 5A.

* Management fees to the parent company had been paid in respect of the management services used to be provided by the Parent Company, according to an agreement with the parent company (See also Note 5A regarding the organizational changes starting November 1, 2011 and January 1, 2012).

The Management fees to the Parent Company for the year ended December 31, 2011 include an amount of USD 261 thousand allocated as selling and marketing expenses.

** Management fees and related benefits to David Yativ, Technologies and Management Ltd. (see Note 18B) include an amount of USD 116 thousand (year ended December 31, 2011: USD 20 thousand) allocated as selling and marketing expenses and an amount of USD 26 thousand allocated as general and administrative expenses.

Note 22 - Income Taxes

A. Details regarding the tax environment of the Company

1. Amendments to the Income Tax Ordinance and the Land Appreciation Tax Law

(a) 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, a gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rate in 2010 and 2011 was 25% and 24% respectively.

On December 5, 2011 the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) - 2011. According to the law the tax reduction that was provided in the Economic Efficiency Law, as aforementioned, will be cancelled and the company tax rate will be 25% as from 2012.

Current taxes for the periods reported in these financial statements are calculated according to the tax rates specified in the Economic Efficiency Law. Regarding the benefits under the law for the encouragement of capital investments - see Note 22A4 hereunder.

Note 22 - Income Taxes (cont'd)

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

1. Amendments to the Income Tax Ordinance and the Land Appreciation Tax Law (cont'd)

(a) (cont'd)

Deferred tax balances as at December 31, 2012 are calculated in accordance with the tax rates specified in the Law to Change the Tax Burden, at the tax rate expected on the date of reversal. (See Note 22A4(b) hereunder).

(b) On February 4, 2010 Amendment 174 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – "the Ordinance") was published in the Official Gazette. The amendment added Section 87A to the Ordinance, which provides a temporary order whereby 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, 2008 and 2009 tax years even if this standard was applied when preparing the financial statements (hereinafter – "the Temporary Order"). On January 12, 2012 Amendment 188 to the Ordinance was issued, by which the Temporary Order was amended so that Standard 29 shall not apply also when determining the taxable income for 2010 and 2011.

2. Taxation under inflation

The Income Tax Law (Adjustments for Inflation) - 1985 (hereinafter - the Law) is effective as from the 1985 tax year. The Law introduced the concept of measurement of results for tax purposes on a real (net of inflation) basis.
In 2008, the report to the Israeli Tax authorities was according to the financial statements in NIS. The Company, being "foreign investment company", elected to be taxed as from the year 2009, based upon dollars books of accounting and according to applicable income tax regulations (hereinafter - "the Dollar regulations").

On February 26, 2008 the Knesset enacted the Income Tax Law (Adjustments for Inflation) (Amendment No. 20) (Restriction of Effective Period) - 2008 (hereinafter - the Amendment). In accordance with the Amendment, the effective period of the Adjustments Law ceased at the end of the 2007 tax year and as from the 2008 tax year the provisions of the law no longer apply, other than the transitional provisions intended at preventing distortions in the tax calculations.

Notwithstanding annulment of the Law, "The Dollar regulations" are still in effect.

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.

Note 22 - 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")

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

- Companies that meet the criteria of the Alternative Path of Tax benefit receive those benefits without prior approval. In addition, there is no requirement to file reports with the Investment Center. Audit takes place via the Income Tax Authorities as part of the tax audits. Request for pre-ruling is possible.

- For any expansion of investment, a company is required to invest within three years, additional production machinery and equipment as a certain percentage of its existing production machinery and equipment.

Beginning 2006 tax year, the Company meets the criteria of the Alternative Path of Tax and it prepares its tax reports according to the Investment Law.

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

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

b. Other Area: Exemption from corporate tax for two years and a reduced tax rate of 25% or the tax rate applicable according to the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) – 2009 for the next five years (see Note 22A 1(a)).

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

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

Note 22 - 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)

(b) Amendment to the Law for the Encouragement of Capital Investments – 1959

On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments - 1959 (hereinafter - "the Amendment to the Law"). The Amendment to the Law was published in the Official Gazette on January 6, 2011. The Amendment to the Law is effective from January 1, 2011 and its 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. 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.

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, the existing tax benefit tracks were eliminated (the tax exempt track, the "Ireland track" and the "Strategic" track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company's income entitled to benefits, such as: for a preferred enterprise - 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. Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitle to benefits for a period of 10 consecutive years and a reduced tax rate of 5% if it is located in Development Area A or of 8% if it is located in a different area.

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 of foreign resident, subject to double taxation prevention treaties, which means that there is no change from the existing law. 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.
The Company implements the Amendment to the Law as from the 2012 tax year.

Note 22 - Income Taxes (cont'd)

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

A subsidiary that was incorporated in the USA 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. Final tax assessments

In May 2012, the Company has reached final tax assessments for the tax years 2007-2010, following which as at March 31, 2012 a tax income in respect of previous years has been recognized at the amount of USD 929 thousand. In addition, an interest for delayed tax payments at the amount of USD 138 thousand was recorded accordingly as a part of this final tax assessment (presented within finance expenses).

D. Composition of income tax (income) expense

	For the year ended December 31	
	2012	**2011**
	$ thousands	**$ thousands**
Current year taxes	**392**	588
Adjustments for prior years	**(929)**	-
Deferred tax income	**(31)**	-
Deferred tax expense - change in tax rate	**-**	13
	(568)	601

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

Starting from the 2009 tax year report, the Company reports to the Israeli tax authorities according to the financial statements in US Dollars.

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 (income) expense, is as follows:

	For the year ended December 31	
	2012	**2011**
	$ thousands	**$ thousands**
Tax rate	**25%**	24%
Profit before tax	**1,815**	3,323
Income tax using the domestic corporations tax rate	**454**	798
Tax saving in respect of foreign subsidiary	**(8)**	(1)
Non-deductible expenses and tax exempt income, net	**15**	33
Tax exempt income due to Preferred Enterprise/Approve Enterprise status	**(128)**	(142)
Change in tax rate	**-**	13
Taxes in respect of previous years	**(929)**	-
Others	**28**	(100)
	(568)	601

Note 22 - Income Taxes (cont'd)

F. 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	Non-current liabilities for employee benefits	Employee benefits	Other	Total
			$ thousands		
Balance as at January 1, 2011	7	45	55	-	107
Changes in 2011	(7)	4	1	2	-
Effect of change in tax rate	-	-	(13)	-	(13)
Balance as at December 31, 2011	-	49	43	2	94
Changes in 2012	**-**	**23**	**9**	**(1)**	**31**
Balance as at December 31, 2012	**-**	**72**	**52**	**1**	**125**

(2) Unrecognized deferred tax liabilities

As at December 31, 2012 a deferred tax liability in the amount of USD 140 thousand (2011: USD 122 thousand) for temporary differences in the amount of USD 559 thousand (2011: USD 488 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.

Note 23 - Earnings Per Share

Basic earnings per share

	For the year ended December 31	
	2012	2011
	$ thousands	$ thousands
Profit for the year	**2,383**	2,722
Issued ordinary shares (in thousands of shares)	**17,671**	17,671
Basic earnings per ordinary share (in US$)	**0.13**	0.15

Note 24 - 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.

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

	For the year ended December 31, 2012				
	Israel	**Europe**	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Revenues	**3,391**	**3,776**	**8,005**	**2,429**	**17,601**
Non-current Assets	**7,480**	**1,070**	**839**	**-**	**9,389**

	For the year ended December 31, 2011				
	Israel	**Europe**	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Revenues	667	5,001	5,947	6,341	17,956
Non-current Assets	5,318	-	868	-	6,186

2. Information about sales to principal customers - see Note 21A2.