Payton Planar Magnetics Ltd.

Annual Report 2011

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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, 2011

***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"), 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 2011

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

March 10, 2011 - The Company signed a purchase agreement of a real-estate property for a total amount of NIS 13,250 thousands, 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 Company financed the transaction by its own financial resources.
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.
The property land is 4,500 square meters and located in the central area of Israel. It consists of a basement/parking lot of 2,000 square meters and two floors above, each of 2,000 square meters. The foundation and framing phases of the industrial building have been finalized. Company plans that by the end of 2012 the building will be fully operational. The additional costs required for the completion and for the move are estimated to additional € 3 million (total value €5.6 million). As at the date of singing these financial statements**,** the Company completed the planning stage and is currently negotiating with few key construction contractors to carry out the project.

[1] The financial statements as at December 31, 2011 form an integral part thereof.

- **On September 18, 2011** - the Company's Board of Directors approved the purchase agreement[2] of the business activity of Payton Technologies (1991) Ltd, a sister-company fully owned by the parent company (Payton Industries), for the amount of NIS 5.6 million (about €1.1 million) (the "Purchase Agreement"). The said amount was based on an assessment prepared by an external, independent appraiser as of 30.6.11. (No price adjustment is required since the difference between the operating assets of Payton Technologies, net, as of 31.12.11 and as of 30.6.11, is less than 5%).

According to the Purchase Agreement, all key executive officers, employed by the parent company shall, as of January 1, 2012, be employed directly by the Company (with no significant changes in the costs allocated to the Company).

In addition to the approval of the Purchase Agreement and as a part of the organizational changes, the Company's Board of Directors approved the following:

- Nomination of Mr. Doron Yativ [3] as the Company's C.E.O.
- Nomination of Mr. David Yativ[4] as an Active Chairman and the Management Services Agreement between the Company and David Yativ, Technologies and management Ltd[5].

- **On November 8, 2011** - the Shareholders General Meeting approved all the resolutions approved by the Company's Board of Directors on September 18, 2011.

C. Sales

The Group major customer base is related to the Telecom and power electronic market. Additional markets the Group aims to are the Industrial, Automotive, consumer goods, Instrumentation and Hi-Reliability ("**Hi-Rel**") markets. In addition, during 2011, the Company operated to expand its activity in: North America, Japan, South Korea, India and China.

Sales for the year ended December 31, 2011 amounted to USD 17,956 thousand compared with USD 24,890 thousand for the year ended December 31, 2010. The sales in 2011 were mostly affected by the global slowdown as well as by the termination of two major, high volume, projects ended during this year.

Revenues for the year ended 2011 consisted of recurring sales to existing customers and sales to new ones.

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

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[2] Effective date - January 1, 2012.

[3] Mr. Doron Yativ, the son of David Yativ, serves as a director and during the past 10 years as Payton's V.P. Marketing and Business development.

[4] Mr. David Yativ- in the past years Chairman & C.E.O., the founder and controlling shareholder of Payton Industries.

[5] A private company fully owned by David Yativ.

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
	2011	**2010**
Customer A	**19.8%	27.8%
Customer B	*	20.2%***

* Less than 10% of the Group's consolidated sales.
** It is noted that a major project of this customer ended by June 2011.
*** It is noted that the major project of this customer ended by March 2011.

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

The global slowdown characterizing year 2011 replaced the global upturn influencing year 2010 Group's performance. Nowadays market fluctuations are very rapid and unpredictable, therefore 2012 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 2011 the Group participated in the following exhibitions:

- January 2011, "New Tech Motion Control & Power Solutions" exhibition in Tel-Aviv, Israel.
- March 2011, "New-Tech" exhibition in Tel-Aviv, Israel.
- March 2011, "APEC 2011" exhibition in California, USA.
- May 2011, "PCIM" exhibition in Nierenberg, Germany.
- September 2011, IEEE Energy Conversion Congress and Expo (ECCE) 2011 in Phoenix, Arizona, USA.

In addition, year 2011, the Company initiated several seminars and conferences in the USA.

During 2011 the Company put intense focus to North America, India and China 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.
- In addition to the Telecom segments, focusing on additional commercial segments such as Automotive (EV/HEV), Consumer Goods, Hi-Rel and Data Processing.
- Use representatives network as sales channels.
- Expanding our activity in the North American market, Japan, India and China.
- 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.

I. Order and Purchase Backlog

Order and purchase backlog of the Group was affected by the global slowdown and by the termination of two major projects (as detailed in paragraph D - Principal customers above).
As at December 31, 2011 this backlog amounted to USD 6,881 thousand (including USD 1,461 thousand relates to the new business activity purchased), and as of March 20, 2012, to USD 7,970 thousand (including USD 2,144 thousand relates to the new business activity purchased), (December 31, 2010 - USD 8,710 thousand) - See also paragraph B above. The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.12.11 will be supplied until the end of December 2012.
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 2011, the Group employed 166 people (including executive officers). The Company has signed employment contracts with most of its key employees and is of the opinion that relations with its employees are satisfactory.

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 North America, Taiwan, Japan, South Korea, India and China in order to further propagate Payton Planar unique technology.
4. In addition to the present Telecom market, Instrumentation segment, Industrial, Consumer Goods and power portable application market, to aim and focus on new high growth segments such as Automotive (EV/HEV), Hi-Rel, Avionics and Space 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, is a classic example of a mean towards achieving this goal, which is accompanied with the ongoing objective of business and operational efficiency.

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

M. Coming year outlook

In the coming year (2012) Payton will face two business and operational challenges:

1. To complete the construction project of the industrial real estate property that will house the entire business activity located in Israel under one roof.
2. To merge the business activity of Payton technologies into Payton Planar, following its acquisition.

The two abovementioned projects are complementary and intertwined one by the other. Management believes that achieving these goals will increase the group efficiency & productivity and expand its business. (see also Section 1.B - above).

Furthermore, during 2012 the Group plans to continue its regular course of business and to maximize the business challenge to the greatest extent possible. It will go on with its marketing efforts aiming to expand products exposure and enlarging market share, and with developing its mass production expertise and capacities.

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

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

N. Risk Factors

	Major Impact	Medium Impact	Small Impact
Macro Risks	▪ Evaluation of the local Israeli currency reflects an increase in labor costs and other operating costs. ▪ 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.	▪ 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.	▪ Telecom and power electronics market fluctuations.
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, 2011

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 19,291 thousand as at December 31, 2011 compared to USD 18,491 thousand as at December 31, 2010. The increase in these items compared to December 31, 2010 is explained mainly by the following: (a) the profitability during the year, (b) classifying the remaining long term deposits as a short term since their maturity date is in less then one year and (c) the sale of "marketable securities available for sale" (ARS, see below). These factors were shortened by investment made in the real-estate property purchased.

Trade accounts receivable - these amounted to USD 2,753 thousand as at December 31, 2011 compared to USD 5,428 thousand as at December 31, 2010. The decrease in this item is explained by the decrease in sales volume.

Long term deposits - the remaining of the originally 3 years time deposits was presented as short-term Deposits since their maturity date is in less than one year.

Marketable securities available for sale (non- current assets) - as at December 31, 2011 these amounted to USD 0 thousand compared to USD 953 thousand as at December 31, 2010. The decrease in this item resulted from materializing the remaining ARS securities, at 94% from their par value (USD 1,000 thousand) in exchange for USD 940 thousand.

Fixed assets - these amounted to USD 6,186 thousand as at December 31, 2011, compared to USD 1,836 thousand as at December 31, 2010. The increase in this item resulted from purchasing the industrial real-estate property in Israel (See paragraph 1.B above).

Trade payables - these amounted to USD 953 thousand as at December 31, 2011 compared to USD 2,211 thousand as at December 31, 2010. The decrease at December 31, 2011 reflects the decrease in sales and business activity.

Other payables - these amounted to USD 981 thousand as at December 31, 2011 compared to USD 2,034 thousand as at December 31, 2010. The decrease resulted mainly from a decrease in current liabilities to related parties.

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 held in USD bearing USD interest rates given by banks (in the range of 0.88% to 2.9%), 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 84% of the Group's salaries during the reported year ended December 31, 2011 were in New Israeli Shekel ("NIS"), 16% 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.

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 2011 the Company used derivatives, from time to time, as a tool for hedging, especially in order to hedge labor costs paid in NIS and in order to hedge payments against the industrial real-estate property, that according to the purchase agreement, were fixed 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 2011	Total 2010	Quarter 10-12/11	Quarter 7-9/11	Quarter 4-6/11	Quarter 1-3/11
Sales revenues	17,956	24,890	3,664	3,659	4,916	5,717
Cost of sales	9,571	13,569	2,280	1,937	2,479	2,875
Gross profit	*8,385*	*11,321*	*1,384*	*1,722*	*2,437*	*2,842*
Development costs	(804)	(719)	(204)	(180)	(231)	(189)
Selling & marketing expenses	(1,816)	(2,112)	(474)	(409)	(442)	(491)
General & administrative expenses	(2,543)	(2,469)	(586)	(688)	(620)	(649)
Other income (expenses)	2	(351)	2	-	-	-
Operating income	*3,224*	*5,670*	*122*	*445*	*1,144*	*1,513*
Finance income (expenses), net	*99*	*32*	(26)	*(141)*	*62*	*204*
Profit before income taxes	*3,323*	*5,702*	*96*	*304*	*1,206*	*1,717*
Income taxes	(601)	(1,039)	26	(50)	(260)	(317)
Net profit for the period	*2,722*	*4,663*	*122*	*254*	*946*	*1,400*

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 (84%) 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 2011, went down by 4% compared to average rate of year 2010, reflecting an increase 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 2011 were USD 17,956 thousand compared with USD 24,890 thousand in year 2010. The sales were mostly affected by the global slowdown as well as by the termination of two major projects during the current year.

***Gross profit* -** The Group's gross results for the year ended December 31, 2011 were USD 8,385 thousand (47%), compared with USD 11,321 thousand (45%), in the year ended December 31, 2010. The increase in the gross profit ratio relates mainly to the products mix sold during each year.

***Development costs* -** Payton's R&D strategy is aimed on maintaining the leadership of the Planar Technology. The R&D department works in conjunction with R&D departments of the forerunners of today's global technology, and together they define tomorrow's technological needs. Costs were based upon time expended by the department's employees. The group's development costs for the year ended December 31, 2011 were USD 804 thousand compared with USD 719 thousand in the year ended December 31, 2010. The increase in these expenses relates mainly to a research process of upgrading materials used in planar transformers.

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, 2011 amounted to USD 1,816 thousand compared with USD 2,112 thousand in the year ended December 31, 2010. 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, 2011 amounted to USD 2,543 thousand compared with USD 2,469 thousand in the year ended December 31, 2010. The increase in these expenses resulted mainly of increase in professional service costs mainly accounting services and other professional services related to the organizational changes.

Other Expenses **-** Last year (2010), the Group's other expenses amounted to USD 351 thousand, as result of the impairment recognized for value of the investment in former subsidiary "Payton Asia" (previously presented as other investment).

Income Taxes **-** Tax expenses for the year ended December 31, 2011 amounted to USD 601 thousand (18%). Tax expenses for the year ended December 31, 2010 amounted to USD 1,039 thousand (18%). The decrease in the taxes is inline with the profits decrease.

Information regarding - Transactions with related parties *(pursuant to note 19 G to the Consolidated Financial Statements as at December 31, 2011)*

	For the year ended December 31	
	2011	**2010**
	$ thousands	**$ thousands**
Management fees to the Parent Company*	1,464	1,704
Management fees to David Yativ, Technologies and Management**	65	-
Financing expenses to the Parent Company	3	11
Fees to directors	33	18
Salaries and related benefits (3 personnel)***	270	71
Sale of fixed assets to Payton Technologies	12	-

* Management fees to the parent company are 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 16B regarding the organizational changes starting November 1, 2011 and January 1, 2012).
Beginning January 1, 2010 these expenses are allocated 89% to the Company and 11% to Payton Technologies Ltd. (a subsidiary of the parent company).

The Management fees to the Parent company include an amount of USD 261 thousand (year ended December 31, 2010: USD 333 thousand) allocated as Selling and Marketing expenses.

** Management fees to David Yativ, Technologies and Management Ltd. (see Note 16B) include an amount of USD 20 thousand allocated as Selling and Marketing expenses.

Information regarding - Balances with related parties *(pursuant to notes 9 & 13to the Consolidated Financial Statements as at December 31, 2011)*

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Related parties (included in Other accounts receivable)	217	-
Related parties (included in Other Payables)	(28)	(908)

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, 2011	December 31, 2010
Current ratio[6]	8.09	4.52
Quick ratio[7]	7.24	4.13

B. Operating activities

Cash flows generated from operating activities for the year ended December 31, 2011 amounted USD 2,538 thousand, compared with the cash flows generated from operating activities of USD 4,480 thousand for the year ended December 31, 2010. The decrease in cash flows generated from operating activities was mostly affected by the decrease in net profit - as result of the business activity slowdown.

C. Investing activities

Cash flows used for investing activities in the year ended December 31, 2011 amounted USD 4,431 thousand compared with Cash flows generated from investing activities of USD 2,223 thousand in the year ended December 31, 2010.

During the year ended December, 31, 2011 cash flows used for investing activities mainly used for investments in the industrial real-estate property.

D. Financing activities

Cash flows used for financing activities in last year (2010) amounted to USD 1,679 thousand, representing a payment of dividend.

[6] Current ratio calculation – Current assets / Current liabilities

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

4. Financing sources

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

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 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, 2011 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 27, 2012.

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, 2011, 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, 2011, 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 27, 2012

Consolidated Statements of Financial Position as at December 31

	Note	2011 $ thousands	2010 $ thousands
Current assets			
Cash and cash equivalents	5	**10,964**	12,932
Short-term deposits	6	**7,073**	3,921
Marketable securities held for trading	7	**1,254**	1,638
Trade accounts receivable	9	**2,753**	5,428
Other accounts receivable	9	**335**	105
Inventory	10	**2,638**	2,245
Total current assets		**25,017**	26,269
Non-current assets			
Long-term deposits	6	**-**	2,064
Marketable securities available for sale	8	**-**	953
Fixed assets	11	**6,186**	1,836
Deferred taxes	20	**94**	107
Total non-current assets		**6,280**	4,960
Total assets		**31,297**	31,229

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

March 27, 2012

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

	Note	2011 $ thousands	2010 $ thousands
Liabilities and equity			
Current liabilities			
Trade payables	12	**953**	2,211
Other payables	13	**981**	2,034
Current tax liability		**1,157**	1,571
Total current liabilities		**3,091**	5,816
Non-current liabilities			
Employee benefits	14	**274**	250
Total non-current liabilities		**274**	250
Equity			
Share capital	18	**4,836**	4,836
Share premium		**8,993**	8,993
Capital fund for available-for-sale assets		**-**	(47)
Retained earnings		**14,103**	11,381
Total equity		**27,932**	25,163
Total liabilities and equity		**31,297**	31,229

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	Note	2011 $ thousands	2010 $ thousands
Revenues	19A	**17,956**	24,890
Cost of sales	19B	**(9,571)**	(13,569)
Gross profit		**8,385**	11,321
Development costs		**(804)**	(719)
Selling and marketing expenses	19C	**(1,816)**	(2,112)
General and administrative expenses	19D	**(2,543)**	(2,469)
Other income (expenses)	19E	**2**	(351)
Operating income		**3,224**	5,670
Finance income	19F	**246**	318
Finance expenses	19F	**(147)**	(286)
Finance income, net		**99**	32
Profit before income taxes		**3,323**	5,702
Income taxes	20	**(601)**	(1,039)
Profit for the year		**2,722**	4,663
Other comprehensive income			
Net change in fair value of available-for-sale assets transferred to profit or loss		**60**	89
Net change in fair value of available-for-sale assets		**(13)**	26
Total other comprehensive income		**47**	115
Total comprehensive income for the year		**2,769**	4,778
Basic earnings per ordinary share (in $)	21	**0.15**	0.26

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, 2010	17,670,775	4,836	8,993	(162)	6,718	20,385
Total comprehensive income for the year						
Profit for the year	-	-	-	-	4,663	4,663
Other comprehensive income						
Net change in fair value of available-for-sale assets transferred to profit or loss	-	-	-	89	-	89
Net change in fair value of available-for-sale assets	-	-	-	26	-	26
Total comprehensive income for the year	-	-	-	115	4,663	4,778
Balance at December 31, 2010	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**

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

Consolidated Statements of Cash Flows for the year ended December 31

	Note	2011 $ thousands	2010 $ thousands
Operating activities			
Profit for the year		**2,722**	4,663
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation	11	**324**	281
Income taxes	20	**601**	1,039
Capital (gain) loss on sale of fixed assets	19E	**(2)**	3
Impairment loss on other investment	19E	**-**	348
Increase in employee benefits	14	**24**	56
Decrease (increase) in trade accounts receivables	9	**2,675**	(2,941)
(Increase) decrease in other accounts receivable	9	**(238)**	35
Increase in inventory	10	**(393)**	(241)
(Decrease) increase in trade payables	12	**(1,267)**	1,098
(Decrease) increase in other payables	13	**(1,053)**	796
Finance income, net		**(120)**	(235)
Interest received		**259**	269
Tax paid		**(994)**	(691)
Cash flows generated from operating activities		**2,538**	4,480
Investing activities			
Proceeds from sale of marketable securities held for trading	7	**319**	103
Proceeds from sale of marketable securities available for sale	8	**940**	1,886
(Investments in) proceeds from short-term deposits, net	6	**(1,027)**	621
Investment in fixed assets	11	**(4,684)**	(415)
Proceeds from sale of fixed assets	11	**21**	38
Cash flows (used for) generated from investing activities		**(4,431)**	2,233
Financing activities			
Dividend paid	18B	**-**	(1,679)
Cash flows used for financing activities		**-**	(1,679)
Net (decrease) increase in cash and cash equivalents		**(1,893)**	5,034
Cash and cash equivalents at beginning of the year		**12,932**	7,961
Effect of exchange rate fluctuations on cash held		**(75)**	(63)
Cash and cash equivalents at end of the year		**10,964**	12,932

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, 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

The Group 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.

B. Definitions

In these financial statements –

1. **International Financial Reporting Standards (hereinafter – IFRS)** – Standards and interpretations that were adopted by the International Accounting Standards Board (IASB) and which include international financial reporting standards and international accounting standards (IAS) along with the interpretations to these standards of the International Financial Reporting Interpretations Committee (IFRIC) or interpretations of the Standing Interpretations Committee (SIC), respectively.
2. **The Company** – Payton Planar Magnetics Ltd.
3. **The Group** – The Company and its subsidiaries.
4. **Payton Industries Ltd.** – Parent company, traded in the Tel Aviv Stock Exchange.
5. **Subsidiaries** – Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.
6. **Related party** – Within its meaning in IAS 24 (2009), "Related Party Disclosures".
7. **Israeli CPI** – The Consumer Price Index as published by the Central Bureau of Statistics in Israel.
8. **NIS** – The Israeli currency – New Israeli Shekel.
9. **$ -** 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 27, 2012.

Note 2 - Basis of Preparation (cont'd)

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;
* Financial instruments classified as available-for-sale;
* 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. Classification of expenses recognized in the statement of income

The classification of expenses recognized in the statement of income is based on the function of the expense. Additional information regarding the nature of the expense is included in the notes to the financial statements.

F. 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 Company's financial statements requires management 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)

G. Changes in accounting policies

(1) Related party disclosures

As from January 1, 2011 the Group applies IAS 24 (2009) *Related Party Disclosures* (hereinafter – "the Standard"). The Standard includes changes in the definition of a related party and changes with respect to disclosures required by government related entities. The Standard was applied retrospectively.

For the purpose of applying the Standard for the first time, the Group mapped its relationships with related parties. No new related parties has been identified according to the new definition and as a result of the mapping.

(2) Financial instruments – Amendments to disclosures

As from January 1, 2011 the Group applies the amendment to IFRS 7 *Financial Instruments: Disclosures* – Amendments to disclosures (hereinafter – "the Amendment") – The Amendment requires the addition of an explicit declaration that the interaction between the qualitative and quantitative disclosures enables the users of the financial statements to better assess the Company's exposure to risks arising from financial instruments. Furthermore, the clause stating that quantitative disclosures are not required when the risk is immaterial was removed, and certain disclosure requirements regarding credit risk were amended while others were removed.
The required disclosures are reflected in these financial statements. For further information see Note 17 on financial instruments.

H. Statement of Cash Flows

Cash flow from interest received and cash flows arising from taxes on income, which were presented in past periods as supplementary disclosure at the bottom of the cash flows statement, are disclosed separately within cash flows from operating activities.
The consolidated statement of cash flows as at December 31, 2010 has been 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 2G, Basis of Preparation, under the section addressing changes in accounting policies and change in classification.

A. Basis of consolidation

1. 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.

2. Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary and the other components of equity related to the subsidiary. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. The difference between the sum of the proceeds and fair value of the retained interest, and the derecognized balances is recognized in profit or loss under other income or other expenses. Subsequently the retained interest is accounted for as an equity-accounted investee or as an available-for-sale asset depending on the level of influence retained by the Group in the relevant company.

3. Transactions eliminated on consolidation

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

B. Foreign currency transactions

Transactions in foreign currencies are translated to the 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 period, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments

1. Non-derivative financial assets

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

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

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

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

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 trade and other receivables.

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

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

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.

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: 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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

5. Share capital

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

D. Fixed assets

1. Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use. 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 is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

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.

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	5-7 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 each financial year-end and adjusted if appropriate.

E. 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.

Note 3 - Significant Accounting Policies (cont’d)

F. 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.

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 net selling price (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”).

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.

Note 3 - Significant Accounting Policies (cont'd)

F. Impairment (cont'd)

2. Non-financial assets (cont'd)

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.

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.

G. Employee benefits

1. Post-employment benefits

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

(a) Defined contribution plans

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

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

Note 3 - Significant Accounting Policies (cont'd)

G. Employee benefits (cont'd)

1. Post-employment benefits (cont'd)

(b) Defined benefit plans (cont'd)

When the calculation results in a net asset for the Group, an asset is recognized up to the net present value of economic benefits available in the form of a refund from the plan or a reduction in future contributions to the plan. An economic benefit in the form of refunds or reductions in future contributions is considered available when it can be realized over the life of the plan or after settlement of the obligation.

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.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognized in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognized immediately in profit or loss.

Gains or losses resulting from curtailments or settlements of a defined benefit plan are recognized in profit or loss. Such gains or losses include any resulting change in the present value of the obligation; any resulting change in the fair value of plan assets.

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

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.

2. Short term benefits

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

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

In the statement of financial position the employee benefits are classified as current benefits or as non-current benefits according to the time the liability is due to be settled.

Note 3 - Significant Accounting Policies (cont'd)

H. Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The carrying amount of the provision is adjusted each period to reflect the time that has passed and is recognized as a financing expense.

A provision for claims is recognized if, as a result of a past event, the Group has a present legal or constructive obligation and it is more likely than not that an outflow of economic benefits will be required to settle the obligation and the amount of obligation can be estimated reliably.

I. Revenue

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

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. For sales of products in Israel, transfer usually occurs when the product is received at the customer's warehouse, but for some international shipments transfer occurs upon loading the goods onto the relevant carrier.

J. Development costs

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

K. Transactions with related parties

Transactions with related parties 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)

L. 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 Company'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).

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

M. Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates 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.

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 assets and liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, 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. 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. 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, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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.

Note 3 - Significant Accounting Policies (cont'd)

N. 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 Group by the weighted average number of ordinary shares outstanding during the period.

O. 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, the Planar transformers segment. Management observe the operating data up to the net profit, in consistent of the financial reports presented in accordance with IFRS.

P. New standards and interpretations not yet adopted

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

This Standard is one of the stages in a comprehensive project to replace IAS 39 Financial Instruments: Recognition and Measurement (hereinafter – IAS 39) and it replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.

In accordance with the Standard, 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 accordance with the Standard, an investment in a debt instrument will be measured at amortized cost if the objective of the entity's business model is to hold assets in order to collect contractual cash flows and the contractual terms give rise, on specific dates, to cash flows that are solely payments of principal and interest. All other debt assets are measured at fair value through profit or loss. Furthermore, embedded derivatives are no longer separated from hybrid contracts that have a financial asset host. Instead, the entire hybrid contract is assessed for classification using the principles above. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss. Nevertheless, the Standard 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. Dividends on equity instruments where revaluations are measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment.

Note 3 - Significant Accounting Policies (cont'd)

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

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

The Standard 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. However, if this requirement aggravates an accounting mismatch in profit or loss, then the whole fair value change is presented in profit or loss. Amounts thus recognized in other comprehensive income may never be reclassified to profit or loss at a later date. The new standard also eliminates the exception that allowed measuring at cost derivative liabilities that are linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured. Such derivatives are to be measured at fair value.

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. A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of involvement with other entities

The new suite of standards replaces existing standards regarding consolidation of financial statements and joint arrangements and includes a number of changes with respect to investments in associates.

Presented hereunder are the new standards that were issued:
IFRS 10 *Consolidated Financial Statements* (hereinafter – "IFRS 10"). IFRS 10 replaces the requirements of IAS 27 *Consolidated and Separate Financial Statements* and the requirements of SIC-12 *Consolidation – Special Purpose Entities* with respect to the consolidation of financial statements, so that the requirements of IAS 27 will continue to be valid only for separate financial statements.

IFRS 10 introduces a new single control model for determining whether an investor controls an investee and should therefore consolidate it. This model is implemented with respect to all investees. According to the model, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with that investee, has the ability to affect those returns through its power over that investee and there is a link between power and returns.

Note 3 - Significant Accounting Policies (cont'd)

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

2. A new suite of accounting standards on consolidation of financial statements, joint arrangements and disclosure of involvement with other entities (cont'd)

Presented hereunder are certain key changes from the current consolidation guidance:

- IFRS 10 introduces a model that requires applying judgment and analyzing all the relevant facts and circumstances for determining who has control and is required to consolidate the investee.
- IFRS 10 introduces a single control model that is to be applied to all investees, both those presently in the scope of IAS 27 and those presently in the scope of SIC-12.
- De facto power should be considered when assessing control. This means that the existence of de facto control could require consolidation.
- When assessing control, all substantive potential voting rights will be taken into account, and not only potential voting rights that are currently exercisable. The structure, reasons for existence and conditions of potential voting rights should be considered.
- IFRS 10 provides guidance on the determination of whether a decision maker is acting as an agent or as a principal when assessing whether an investor controls an investee.
- IFRS 10 provides guidance on when an investor would assess power over portion of the investee (silos), that is over specified assets and liabilities or groups of assets and liabilities of the investee.
- IFRS 10 provides a definition of protective rights, while there is no such definition in existing IFRS.
- The exposure to risks and rewards of an investee does not on its own determine that the investor has control over an investee, rather it is one of the factor of control analysis.

IFRS 10 is applicable retrospectively (with a certain relief) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided and that the entire new suite of standards is early adopted, meaning also the additional standards that were issued at the same time – IFRS 11 *Joint Arrangements,* IFRS 12 *Disclosure of Involvement with Other Entities*, IAS 27 (2011) and IAS 28 (2011).

IFRS 12 ***Disclosure of Involvement with Other Entities*** **(hereinafter – "IFRS 12").** IFRS 12 contains extensive disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and unconsolidated structured entities.
IFRS 12 is applicable for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that the entire new suite of standards is early adopted, meaning also the additional standards that were issued at the same time – IFRS 11 Joint Arrangements, IFRS 10 Consolidated Financial Statements, IAS 27 (2011) and IAS 28 (2011).
Nevertheless, it is permitted to voluntarily provide the additional disclosures required by IFRS 12 prior to its adoption without early adopting the other standards.

The Group has not yet started assessing the effects of adopting the standards on its financial statements.

Note 3 - Significant Accounting Policies (cont’d)

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

3. IFRS 13 ***Fair Value Measurement*** **(hereinafter – “IFRS 13”).** IFRS 13 replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 does not introduce new requirements to measure assets or liabilities at fair value.

IFRS 13 applies to assets, liabilities and an entity’s own equity instruments that, under other IFRSs, are required or permitted to be measured at fair value or when disclosure of fair value is provided. Nevertheless, IFRS 13 does not apply to share based payment transactions within the scope of IFRS 2 *Share-Based Payment* and leasing transactions within the scope of IAS 17 *Leases*.

IFRS 13 does not apply to measurements that are similar to but are not fair value (such as the measurement of the net realizable value of inventory, in accordance with IAS 2 *Inventories*, and the measurement of value in use, in accordance with IAS 36 *Impairment of Assets*).

IFRS 13 is applicable prospectively for annual periods beginning on or after January 1, 2013. Earlier application is permitted with disclosure of that fact. The disclosure requirements of IFRS 13 need not be applied in comparative information for periods before initial application.

The Group has not yet started assessing the effects of adopting IFRS 13 on its financial statements.

4. Amendment to IAS 1, ***Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income*** **(hereinafter – “the Amendment”)**. The Amendment changes the presentation of items of other comprehensive income (hereinafter – “OCI”) in the financial statements, so that items of OCI that may be reclassified to profit or loss in the future, would be presented separately from those that would never be reclassified to profit or loss. Additionally, the Amendment changes the title of the Statement of Comprehensive Income to Statement of Profit or Loss and Other Comprehensive Income. However, entities are still allowed to use other titles. The Amendment is effective for annual periods beginning on or after July 1, 2012. The amendment will be applied retrospectively. Early adoption is permitted providing that disclosure is provided.

5. Amendment to IAS 19, ***Employee Benefits*** **(hereinafter – “the Amendment”).** The Amendment introduces a number of changes to the accounting treatment of employee benefits. The key changes are as follows:

- The Amendment eliminates the possibility of postponing recognition of actuarial gains and losses, known as the "corridor method" and, in addition, eliminates the option of recognizing actuarial gains and losses directly in profit or loss. As a result, all actuarial gains and losses will be recognized immediately in equity through other comprehensive income.
- The Amendment requires immediate recognition of past service costs regardless of whether the benefits have vested or not.

Note 3 - Significant Accounting Policies (cont'd)

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

5. (cont'd)

- The calculation of net financing income or expense will be determined by applying the discount rate used to measure the defined benefit obligation to the net defined benefit liability (asset). Accordingly, calculation of actuarial gains or losses will also change.
- The Amendment changes the definitions of short-term employee benefits and of other long term employee benefits, so that the distinction between the two will depend on when the entity expects the benefits to be wholly settled, rather than when settlement is due.
- The Amendment enhances the disclosure requirements for defined benefit plans, in an effort to provide better information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.
- The definition of termination benefits has been clarified in accordance with IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, so that termination benefits are recognized at the earlier of when the entity recognizes costs for a restructuring that includes the payment of termination benefits, and when the entity can no longer withdraw the offer of the termination benefits.

The Amendment is applicable retrospectively (excluding certain exceptions stated in the Amendment) for annual periods beginning on or after January 1, 2013. Early adoption is permitted providing that disclosure is provided.

The Group has not yet started assessing the effects of adopting the Amendment on its financial statements.

6. Amendment to IFRS 7 Financial Instruments: Disclosures and to IAS 32 Financial Instruments: Presentation - Offsetting of Financial Assets and Financial Liabilities (hereinafter - "the Amendment to IFRS 7" and the "the Amendment to IAS 32", respectively). The Amendment to IAS 32 clarifies that an entity currently has a legally enforceable right to set-off amounts that were recognized if that right is not contingent on a future event; and it enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all its counterparties. The Amendment to IFRS 7 contains new disclosure requirements for financial assets and liabilities that are offset in the statement of financial position; or are subject to master netting agreements or similar agreements.
The Amendment to IFRS 7 is effective for annual periods beginning on or after January 1, 2013. The Amendment to IAS 32 is effective for annual periods beginning on or after January 1, 2014. The amendments are to be applied retrospectively. Early application of the amendment to IAS 32 is permitted subject to the concurrent application of Amendment to IFRS 7.

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.

A. 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.

B. 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.

For further information regarding the fair value hierarchy see Note 17 regarding financial instruments.

Note 5 - Cash and Cash Equivalents

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Bank balances	**2,695**	3,670
Call deposits	**8,269**	9,262
	10,964	12,932

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

Note 6 - Deposits

Short term deposits

Short term deposits in dollars, bearing interest at an annual rate of approximately 2.05% - 2.90% (December 31, 2010: 1.26% - 1.57%).

Long term deposits

As at December 31, 2010 - Long term deposits in dollars bearing interest at an annual rate of 2.5%.

The long term deposits consist of 3 years time deposits, enable a penalty free exit point after each year (with reduced rates). Final maturity is in September 2012. Thus, as at December 31, 2011 the balance of these deposits was presented as short-term deposits.

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

Note 7 - Marketable Securities Held for Trading

	December 31 2011	**December 31 2010**
	$ thousands	**$ thousands**
Mutual funds	**399**	398
Bonds	**347**	686
Preferred stocks 6.1% - 10.5%	**508**	554
	1,254	1,638

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

Note 8 - Marketable Securities Available For Sale

The Company invested in U.S. Auction Rate Securities (ARS) that are securities issued by local authorities, high education institutions and others for long terms nominal maturity (much more than 10 years), for the purpose of the securitization of their assets. The interest rate is regularly reset through an auction every 7 or 28 days. These securities were classified as available for sale securities.

During 2010 the Company accepted offers to materialize two of its ARS securities at a rate of 96% and 95% respectively, from their par value, (Par value – USD 1,975 thousand). In exchange for these sales of ARS the Company received USD 1,886 thousand.

In April 2011 the Company accepted an offer to materialize its remaining ARS securities at a rate of 94% from their par value (Par value - USD 1,000 thousand). In exchange for this sale of ARS, the Company received USD 940 thousand.

Note 9 - Trade and Other Accounts Receivable

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Trade accounts receivable		
Open accounts	**2,787**	5,415
Checks payables	**-**	13
	2,787	5,428
Less provision for doubtful debts	**(34)**	-
	2,753	5,428
Other accounts receivable		
Current tax assets	**21**	29
Derivative instruments	**8**	5
Related parties	**217**	-
Other receivables	**89**	71
	335	105

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

Note 10 - Inventory

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Raw and packing material	**1,854**	1,667
Work-in-process	**192**	170
Finished products	**592**	408
	2,638	2,245

Note 11 - Fixed Assets

	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**
December 31, 2010						
Cost						
Balance as of January 1, 2010	2,334	108	692	384	917	4,435
Acquisitions	239	127	29	5	-	400
Disposals	(27)	(50)	-	-	-	(77)
Balance as of December 31, 2010	2,546	185	721	389	917	4,758
Accumulated depreciation						
Balance as of January 1, 2010	1,681	33	575	348	40	2,677
Depreciation for the year	157	21	70	8	25	281
Disposals	(15)	(21)	-	-	-	(36)
Balance as of December 31, 2010	1,823	33	645	356	65	2,922
Carrying amounts as of December 31, 2010	723	152	76	33	852	1,836

Note 11 - Fixed Assets (cont'd)

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). On August 16, 2011, the transaction was completed and the Company received the possession rights. The Company financed the transaction by its own financial resources.

The industrial property will house the activities of the three currently-leased local facilities in one single new building.
The property land is 4,500 square meters and located in the central area of Israel. It consists of a basement/parking lot of 2,000 square meters and two floors above, each of 2,000 square meters. The foundation and framing phases of the industrial building have been finalized. Company plans that by the end of 2012 the building will be fully operational. The additional costs required for the completion and for the move are estimated to additional € 3 million/USD 3.9 million (total value € 5.6 million/USD 7.6 million).
As at December 31, 2011 the investment in the real estate property, including additional costs, amounted to USD 4,226 thousand.

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

The property land which has a carrying amount of USD 1,430 thousand as at December 31, 2011 is leased from the Israel Lands Administration under a capitalized lease for 49 years, ending on June 30, 2032. The Company has the right to extend the lease period by another 49 years under certain circumstances. In accordance with IAS 17, the Company did not recognize an asset and liability in respect of future payments that may be paid for exercising the option to extend the lease period, since these payments constitute contingent lease payments that are derived from the fair value of the land on the future dates of renewing the lease agreements.

C. Acquisition of fixed assets on credit

During the year ended December 31, 2011, the Company acquired fixed assets on credit in the amount of USD 15 thousand (December 31, 2010: USD 6 thousand).

D. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2011 the original cost of such assets is USD 2,979 thousand (December 31, 2010: USD 2,727 thousand).

Note 12 - Trade Payables

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Open accounts	**951**	2,202
Checks payables	**2**	9
	953	2,211

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

Note 13 - Other Payables

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Employees and related benefits	**677**	730
Related parties	**28**	908
Derivative instruments	**7**	-
Other payables and accrued expenses	**269**	396
	981	2,034

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

Note 14 - Employee Benefits

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

Composition of employee benefits:

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Presented under other payables:		
Short-term employee benefits	**244**	229
Presented under non-current employee benefits:		
Recognized liability for defined benefit plan	**274**	250
Total employee benefits	**518**	479

A. Post-employment benefit plans - defined benefit plan

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

	December 31 2011	December 31 2010
	$ thousands	$ thousands
Present value of defined benefit obligation	**661**	580
Fair value of plan assets	**(387)**	(330)
Recognized liability for defined benefit obligations	**274**	250

Note 14 - Employee Benefits (cont'd)

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

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

	2011	2010
	$ thousands	$ thousands
Defined benefit obligations as at January 1	**580**	468
Benefits paid	**(4)**	(4)
Current service costs and interest costs	**62**	62
Changes in respect of foreign exchange differences	**(41)**	30
Actuarial (gains) losses	**(31)**	24
Employee transferred (see Note 16B)	**95**	-
Defined benefit obligation as at December 31	**661**	580

2. Movements in plan assets

	2011	2010
	$ thousands	$ thousands
Fair value of plan assets as at January 1	**330**	274
Contributions paid	**30**	32
Expected return on plan assets	**16**	17
Changes in respect of foreign exchange differences	**(23)**	17
Asset return expense	**(9)**	(9)
Actuarial losses	**(10)**	(1)
Employee transferred (see Note 16B)	**53**	-
Fair value of plan assets as at December 31	**387**	330

3. Expenses recognized in profit or loss

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Current service costs and interest costs	**62**	62
Expected return on plan assets	**(16)**	(17)
Asset return expense	**9**	9
Net actuarial (gains) losses in the year	**(21)**	25
Net change in respect of foreign exchange differences	**(18)**	13
Employee transferred (see Note 16B)	**42**	-
	58	92
The expense is recognized in the following line items in the income statement:		
Cost of sales	**16**	40
Development expenses	**15**	32
Selling and marketing expenses	**2**	-
Administrative expenses	**43**	7
Finance expenses	**(18)**	13
	58	92

Note 14 - Employee Benefits (cont'd)

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

4. Actual return

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Actual return on plan assets	**15**	16

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. Mortality rates are based on Ministry of Finance insurance circular 2007-3-6, reflecting the latest mortality assumptions in Israel, including future mortality improvements.

ii. Disability rates are based upon table of the pension circular 2007-3-6 of the Ministry of Finance.

iii. 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 and the limited number of years experience currently available, these assumptions were felt to be reasonable. With the progress of time and the consequent accumulation of experience, these assumptions are periodically reviewed.

c. Retirement Age: 67 for men and 62 for women.

Note 14 - Employee Benefits (cont'd)

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

5. Actuarial assumptions (cont'd)

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, 2011	**2.43%**
December 31, 2010	2.20%

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

iii. The expected real return on individual assets for 2011, as of January 1, 2011 is 2.20% (as of January 1, 2010 – 2.58%).

6. Historical information

	December 31				
	2011	**2010**	**2009**	**2008**	**2007**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**	**$ thousands**
Present value of the defined benefit obligation	**661**	580	468	378	371
Fair value of plan assets	**(387)**	(330)	(274)	(226)	(246)
Deficit in the plan	**274**	250	194	152	125
Experience adjustment - actuarial gains (losses) on plan liabilities	**31**	(24)	(24)	57	(7)
Experience adjustment - actuarial gains (losses) on plan assets	**(10)**	(1)	3	(116)	93

B. Post-employment benefit plans – defined contribution plan

	For the year ended December 31	
	2011	**2010**
	$ thousands	**$ thousands**
Amount recognized as expense in respect of defined contribution plan	**319**	292

Note 15 - Investments in Subsidiary Companies and Other Investment

A. Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2011:

1. 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, holding 3.74% of the paid up share capital of Champs technologies. (See B hereunder). The investment in Payton Holdings constitutes a capital note in NIS which is not linked to the CPI and does not bear any interest.

2. 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.

B. Other Investment

Champ Technologies
Starting July 1, 2003 the Company stated, in its financial statements, the remaining balance of the investment in its former subsidiary "Payton Asia" (now known as "Champs technologies") under the category of long-term investments. The Company's share holding in "Payton Asia" was 10.7% (includes 3.74% held by a subsidiary Payton Planar Holdings (1996) Ltd.).
As at December 31, 2010 the Company recognized impairment for value of its investment in Champs technologies (see Note 19E).

Note 16 - Commitments, Contingent Liabilities and Liens

A. The Company has a commitment for a monthly rent of about USD 23 thousand and USD 6 thousand for its premises in Israel up to 2012 (with an extension option up to 2014) and 2018 accordingly.

B. On September 18, 2011 the Company's Board of Directors approved the purchase agreement (effective date - January 1, 2012) of the business activity of Payton Technologies (1991) Ltd, a sister-company fully owned by the parent company (Payton Industries), for the amount of NIS 5.6 million (about € 1.1/ USD 1.47 million) (the "Purchase Agreement"). The said amount was based on a valuation prepared by an external, independent appraiser as of June 30, 2011. No price adjustment is required since the difference between the operating assets of Payton Technologies, net, as of December 31, 2011 and as of June 30, 2011, is less than 5%.

According to the Purchase Agreement, all key executive officers, employed by the parent company shall, as of January 1, 2012, be employed directly by the Company (with no significant changes in the costs allocated to the Company).

Note 16 - Commitments, Contingent Liabilities and Liens (cont'd)

B. (cont'd)

In addition to the approval of the Purchase Agreement and as a part of the organizational changes, the Company's Board of Directors approved the following, effective November 1, 2011:

- Nomination of Mr. Doron Yativ (the son of Mr. David Yativ, serves as a director and during the past 10 years as Payton's V.P. Marketing and Business development) as the Company's C.E.O.
- Nomination of Mr. David Yativ (in the past years Chairman & C.E.O., the founder and controlling shareholder of Payton Industries) as an Active Chairman according to a Management Services Agreement between the Company and David Yativ, Technologies and Management Ltd (a private company fully owned by Mr. David Yativ).

On November 8, 2011 the Shareholders General Meeting approved all the resolutions approved by the Company's Board of Directors on September 18, 2011.

Note 17 - Financial Instruments

A. Overview

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

- Credit risk
- Liquidity risk
- Market risk (including currency, 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.

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'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.

Note 17 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk

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

	December 31	
	2011	2010
	Carrying amount	
	$ thousands	$ thousands
Cash and cash equivalents	**10,964**	12,932
Available-for-sale financial assets	**-**	953
Held for trading financial assets	**347**	686
Short-term deposits	**7,073**	3,921
Long-term deposits	**-**	2,064
Trade accounts receivable	**2,753**	5,428
Other accounts receivable	**217**	-
	21,354	25,984

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 trade receivables at the reporting date by geographic region was:

	December 31	
	2011	2010
	Carrying amount	
	$ thousands	$ thousands
Israel	**245**	195
Asia	**468**	2,922
Europe	**792**	1,409
America	**1,248**	902
	2,753	5,428

The Group's most significant customers account for:

	December 31	
	2011	2010
	Carrying amount	
	$ thousands	$ thousands
Customer A	**140**	2,349
Customer B	*	479

* Less than 10% of the Group's consolidated sales (see Note 19A).

Note 17 - 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			
	2011		2010	
	Gross	Impairment	Gross	Impairment
	$ thousands	$ thousands	$ thousands	$ thousands
Not past due	**1,832**	**-**	4,337	-
Past due 0-30 days	**758**	**-**	881	-
Past due 31-120 days	**165**	**(21)**	210	-
Past due 121 days to one year	**32**	**(13)**	-	-
	2,787	**(34)**	5,428	-

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, including estimated interest payments and excluding the impact of netting agreements:

	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**

	December 31, 2010		
	Carrying amount	Contractual cash flows	6 months or less
		$ thousands	
Non-derivative financial liabilities			
Trade payables	2,211	2,211	2,211
Other payables	1,295	1,295	1,295
	3,506	3,506	3,506

Note 17 - Financial Instruments (cont'd)

D. Market risk

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

1. 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 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, 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**

	December 31, 2010			
	Dollar	NIS	*Other	Total
	$ thousands			
Current assets:				
Cash and cash equivalents	11,753	54	1,125	12,932
Marketable securities and deposits	4,607	-	-	4,607
Trade and other receivables	4,709	195	524	5,428
Non-current assets:				
Marketable securities and deposits	3,017	-	-	3,017
Current liabilities:				
Trade payables	(1,764)	(441)	(6)	(2,211)
Other payables	(339)	(942)	(14)	(1,295)
	21,983	(1,134)	1,629	22,478

* Mainly Euro.

Note 17 - 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)

As at December 31, 2011 the Group has open future transactions as following:

1. Purchase of an option to sell USD 2,100 thousand for NIS 7,740 thousand, the market value of which was estimated at an income of USD 8.

2. Sale of an option to purchase USD 600 thousand for NIS 2,304 thousand, the market value of which was estimated at an expense of USD (4).

3. Forward foreign currency contract of USD 500 thousand for NIS 1,901 thousand, the market value of which was estimated at an expense of USD (3) thousand.

Information regarding significant exchange rates:

	Year ended December 31		Year ended December 31	
	2011	2010	2011	2010
	Rate of change		Reporting date spot rate	
	%	%	NIS	NIS
1 US dollar	**7.66**	(5.99)	**3.821**	3.549

	Year ended December 31		Year ended December 31	
	2011	2010	2011	2010
	Rate of change		Reporting date spot rate	
	%	%	Euro	Euro
1 US dollar	**3.34**	7.93	**0.774**	0.749

Note 17 - 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, 2011 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 2010.

	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**

	December 31, 2010	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	(57)	(57)
5% in the Euro	78	78

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 which are in US dollars bearing interest rates given by or affected by banks in the range of 0.88%-2.9% 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	
	2011	2010
	Carrying amount	
	$ thousands	$ thousands
Fixed rate instruments		
Financial assets	**15,689**	15,933
Variable rate instruments		
Financial assets	**-**	953

Note 17 - Financial Instruments (cont’d)

D. Market risk (cont'd)

2. Interest rate risk (cont’d)

(b) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, 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.

E. Fair value

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

Fair value hierarchy

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

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

	December 31, 2011		
	Level 1	Level 2	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	**1,254**	**-**	**1,254**

	December 31, 2010		
	Level 1	Level 2	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	1,638	-	1,638
Marketable securities available for sale	-	953	953
	1,638	953	2,591

Note 18 - Share Capital

A. Composition

	Number of shares		
	Authorized	Issued and paid	
	December 31, 2011 and 2010		
Ordinary shares of NIS 1 each	**20,000,000**	**17,670,775**	**17,670,775**

B. Dividends

The following dividends were declared and paid by the Company:

	Year ended December 31	
	2011	2010
	$ thousands	$ thousands
USD 0.095 per ordinary share	**-**	1,679

Note 19 - Income Statement Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Export	**17,278**	24,270
Local	**678**	620
	17,956	24,890

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	
	2011	2010
	%	%
Customer A	**20**	28
Customer B	*	20

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

Note 19 - Income Statement Data (cont'd)

B. Cost of sales

1. Cost of sales

	For the year ended December 31	
	2011	**2010**
	$ thousands	**$ thousands**
Materials consumed**	**4,959**	8,825
Salaries and related benefits	**3,429**	3,541
Depreciation	**228**	183
Other manufacturing expenses	**1,161**	1,099
Change inventory of finished products and work in process	**(206)**	(79)
	9,571	13,569

** Includes inventory write-off of USD 60 thousand and USD 56 thousand for the years ended December 31, 2011 and 2010, respectively.

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	
	2011	**2010**
	%	**%**
Supplier A	**50**	62
Supplier B	*	18

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

C. Selling and marketing expenses

	For the year ended December 31	
	2011	**2010**
	$ thousands	**$ thousands**
Salaries and related benefits	**613**	553
Sales commissions	**874**	1,239
Advertising and marketing	**98**	62
Exhibits and travel abroad	**208**	226
Other	**23**	32
	1,816	2,112

Note 19 - Income Statement Data (cont'd)

D. General and administrative expenses

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Salaries and related benefits	**560**	544
Office rent, maintenance and communications	**135**	107
Depreciation	**96**	98
Professional services	**147**	100
Management fees	**1,248**	1,371
Other	**357**	249
	2,543	2,469

E. Other income (expenses)

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Capital gain (loss) on sale of fixed assets	**2**	(3)
Impairment loss on other investment (1)	**-**	(348)
	2	(351)

(1) During the fourth quarter of 2010 the Company made its best efforts to materialize its investment in Champs technologies with no success. Therefore, as at December 31, 2010, the Company recognized impairment for value of the said investment, included in other expenses.

F. Financial result

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Financing income		
Interest income from bank deposits	**241**	151
Income from marketable securities held for trading	**-**	139
Interest income from marketable securities available for sale	**5**	27
Other	**-**	1
	246	318
Financing expenses		
Bank charges and others	**31**	29
Loss from sale of marketable securities available for sale	**60**	89
Exchange rate differences, net	**23**	157
Interest on transactions with parent company	**3**	11
Other	**30**	-
	147	286

Note 19 - Income Statement Data (cont'd)

G. Transactions with related parties

	For the year ended December 31	
	2011	**2010**
	$ thousands	**$ thousands**
Management fees to the Parent Company*	**1,464**	1,704
Management fees to David Yativ, Technologies and Management**	**65**	-
Financing expenses to the Parent Company	**3**	11
Fees to directors	**33**	18
Salaries and related benefits (3 personnel)	**270**	71
Sale of fixed assets to Payton Technologies	**12**	-

Regarding balances with related parties - see Notes 9, 13.

* Management fees to the parent company are 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 16B regarding the organizational changes starting November 1, 2011 and January 1, 2012).

Beginning January 1, 2010 these expenses are allocated 89% to the Company and 11% to Payton Technologies Ltd. (a subsidiary of the parent company).

The Management fees to the Parent company include an amount of USD 261 thousand (year ended December 31, 2010: USD 333 thousand) allocated as Selling and Marketing expenses.

** Management fees to David Yativ, Technologies and Management Ltd. (see Note 16B) include an amount of USD 20 thousand allocated as Selling and Marketing expenses.

Note 20 - 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 2010 and 2011 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 rates applicable as from the 2009 tax year are as follows: In the 2009 tax year - 26%, in the 2010 tax year - 25%, in the 2011 tax year –- 24%, in the 2012 tax year - 23%, in the 2013 tax year - 22%, in the 2014 tax year - 21%, in the 2015 tax year - 20% and as from the 2016 tax year the company tax rate will be 18%.

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.

Note 20 - 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, 2011 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 20A4(b) hereunder).

(b) On January 12, 2012 Amendment 188 to the Income Tax Ordinance - Temporary Order for Tax Years 2007 - 2011 was published in the Official Gazette (hereinafter - "the Temporary Order"). In accordance with the Temporary Order, Israeli Accounting Standard No. 29 regarding the adoption of International Financial Reporting Standards (IFRS) (hereinafter - "Standard 29") shall not apply when determining the taxable income for the 2007-2011 tax years even if it was applied when preparing the financial statements.
The effect on the financial statements of the Temporary Order with respect to the taxable income for the years 2007-2011 is immaterial.

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 20 - Income Taxes (cont’d)

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

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

(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 20A 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 20 - Income Taxes (cont'd)

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

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

(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 will 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 continue to apply to a dividend distributed out of preferred income to an individual shareholder of foreign resident, subject to double taxation distributed out of preferred income to an individual shareholder or 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 tax paid 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 (a distribution from profits of the exempt enterprise will be subject to tax by the distributing company).

Note 20 - Income Taxes (cont'd)

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

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

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

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 intends to implement the Amendment to the Law as from the 2012 tax year. Therefore, the deferred tax balances as at December 31, 2011 were adjusted by the amount of USD 13 thousand. The adjustment of the deferred tax balances was recognized against deferred tax expenses.

B. Details regarding the tax environment of the subsidiary

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 35% federal tax and 5% state tax.

C. Final tax assessments

The Company's final income tax assessments up to and including the 2006 tax year are considered to be final.

D. Composition of income tax expense

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Current taxes	**588**	1,075
Deferred tax income	**-**	(36)
Deferred tax expense - change in tax rate	**13**	-
	601	1,039

Note 20 - Income Taxes (cont'd)

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 expense, is as follows:

	For the year ended December 31	
	2011	**2010**
	$ thousands	**$ thousands**
Tax rate	**24%**	25%
Profit before tax	**3,323**	5,702
Income tax using the domestic corporations tax rate	**798**	1,426
Additional tax in respect of foreign subsidiaries	**(1)**	1
Non-deductible expenses and tax exempt income, net	**33**	94
Tax exempt income due to Approve Enterprise status	**(142)**	(557)
Change in tax rate	**13**	-
Others	**(100)**	75
	601	1,039

F. Deferred tax assets and liabilities

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, 2010	-	35	36	-	71
Changes in 2010	7	10	19	-	36
Balance as at December 31, 2010	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**

Note 21 - Earnings Per Share

Basic earnings per share

	For the year ended December 31	
	2011	2010
	$ thousands	$ thousands
Profit for the year	**2,722**	4,663
Issued ordinary shares (in thousands of shares)	**17,671**	17,671
Basic earnings per ordinary share (in US$)	**0.15**	0.26

Note 22 - Entity Wide Disclosure

1. The Group has one operating segment, the planar transformers segment. The Group's chief operating decision maker makes decisions and allocates resources with respect to all the planar 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, 2011			
	Europe and Israel (mainly Europe)	America	Asia	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**5,668**	**5,947**	**6,341**	**17,956**
Assets	**5,318**	**868**	**-**	**6,186**

	For the year ended December 31, 2010			
	Europe and Israel (mainly Europe)	America	Asia	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	7,068	6,110	11,712	24,890
Assets	932	904	-	1,836

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