PAYTON GROUP
INTERNATIONAL

Payton Planar Magnetics Ltd.

Annual Report 2010

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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, 2010

***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. <u>A concise description of the corporation and its business environment</u>

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 2010

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 thousand, excluding 16% VAT (about € 2.7 million excl. VAT). The Company expects to finance 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 anticipates that it could take about two years to be fully operational. The additional costs required for the completion and for the move are estimated to about € 2.8 million. Payton will consider of how to finance the additional cost, either by a bank loan or with its own resources.

[1] The financial statements as at December 31, 2010 form an integral part thereof.

The agreement execution is still subject to a suspending condition, valid for 90 days from its signing date, and concerns the completion of the property registration in the local Real-estate registration office.

- **Signing MOU licensing mass production - January 13, 2010 -** The Company signed a Memorandum of Understanding ("MOU") with the Korean company Bujeon Electronics Co. ("Bujeon"). Under the terms of the MOU, Bujeon will be licensed to manufacture Planar Transformers for the TV and monitor markets.

Bujeon has mass production capabilities and specializes in manufacturing conventional inductive components to telecom, acoustic and computing markets.

A principal customer of Payton (Customer D), a major global electronics company in Korea, has introduced both companies to each other in order to enable it to integrate the Planar Transformers in its mass consumer electronic products.

By the date of signing these financial statements, it seems that the project of which Payton-Bujeon handled together is expected to reach its E.O.L (End of Life) by mid 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 Military markets in: North America, Japan, Taiwan and South Korea.

Sales for the year ended December 31, 2010 amounted to USD 24,890 thousand compared with USD 14,005 thousand for the year ended December 31, 2009. The sales in 2010 were mostly affected by a ramp-up of few new projects matured and transferred to production in additional to the global upturn noted on 2010.

Revenues for the year ended 2010 consisted of recurring sales to existing customers and sales to new ones.

The Sales were generated primarily from large telecom companies, commercial, industrial and military applications manufacturers.

D. Principal customers

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

	For the year ended December 31	**For the year ended December 31**
	2010	**2009**
Customer A	27.8%	*
Customer B	*	16.7%**
Customer C	*	11.9%
Customer D	20.2%***	*

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

** It is noted that the major project of this customer ended on September 2009.

*** It is noted that the major project of this customer is slowing down and expected to reach its E.O.L (End of Life) by mid 2011.

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

The global upturn during 2010 affected the Group's performance. But, it is noted that nowadays market fluctuations are very rapid and unpredictable, therefore 2011 trend is very hard to foresee. The global economy in general, and the U.S. economy in particular, are still very unstable and are not expected to recover from the last recession that fast.

Along with the above-mentioned global fluctuations, there have been 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 year 2010 the Group participated in the following exhibitions:

- January 2010, "Hespek & Bakara, New-tech 2010" exhibition in Tel-Aviv, Israel.
- February 2010, "APEC 2010" exhibition in California, U.S.A.
- March 2010, "Technology Hi-tech 2010" exhibition in Tel-Aviv, Israel.
- May 2010, "Technology & Military" exhibition in Airport City, Israel.
- May 2010, "PCIM" exhibition in Nurnberg, Germany.
- April 2010, "EP&T Electronic products & Technology magazine" exhibition in Toronto, Canada.
- June 2010, "EP&T Electronic products & Technology magazine" exhibition in Vancouver, Canada.
- September 2010, MDDI exhibition in Haifa, Israel.
- September 2010, TI conference in Boston, Milwaukee, Seattle and Detroit, U.S.A.
- October 2010, TI conference in Dallas and Philadelphia, U.S.A.
- October 2010, SAE Convergence conference & exhibition in Michigan, U.S.A.
- November 2010, "Electronica" exhibition in Munich, Germany.

During 2010 the Company continued its intense focus to the North American and the Far East 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, Consumer Goods, Military and Data Processing.
- Use representatives network as sales channels.
- Expanding our activity in the North American market, South Korea, Japan and India.
- Deepening activity with existing customers.

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.

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

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, Tokin - from Japan and Himag - from U.K.

I. Order and Purchase Backlog

Order and purchase backlog of the Group as of December 31, 2010 were USD 8,710 thousand; and as of March 22, 2011 this backlog amounted to USD 7,985 thousand (December 31, 2009 - USD 6,400 thousand). The backlog is composed only of firm orders.

Management estimates that most of the backlog as of 31.12.10 will be supplied until the end of December 2011.

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 2010, the Group employed 163 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 also certified with ISO14001:2004 (Environmental standard). Payton is a Lead Free company as required by the 2002/95/EC RoHS directive.

The Company is also certified with two important International Quality Management Standards: for Automotive - TS16949:2002 and for Space & Avionic - AS9100.

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

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 and strengthening its current blue-chip customer base. This will enable Payton to build a track record as a reliable high-volume Planar component supplier to leading OEM's.
2. Selectively developing additional key strategic customers, especially in North America, Taiwan, Japan, South Korea, India and China in order to further propagate Payton Planar unique technology.
3. 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, Military, Avionics and Space applications.
4. Continuing to educate the Power Electronics industry about Planar technology.
5. 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.
6. Payton is constantly looking for business opportunities to extend its core business with synergetic product lines.

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

M. Coming year outlook

On year 2011 the Group plans to continue its regular course of business and to maximize the business challenge of year 2011 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.

The Group plans to examine and develop the option for a strategic presence in China and India.

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.

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.	▪ 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.	
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.	

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

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, 2010

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 18,491 thousand as at December 31, 2010 compared to USD 14,176 thousand as at December 31, 2009. The increase in these items is explained by the profitable results of the business activity and by the materialization of Marketable securities available for sale, covering up the increase in working capital and the dividend payment made on January 2010 (USD 1,679 thousand).

Trade accounts receivable - these amounted to USD 5,428 thousand as at December 31, 2010 compared to USD 2,487 thousand as at December 31, 2009. The increase in this item is explained by the significant sales volume increase.

Long term deposits - these amounted to USD 2,064 thousand as at December 31, 2010 (USD 2,014 thousand as at December 31, 2009). The long-term deposits consist of 3 years time deposits; enable a penalty free exit point after each year.

Marketable securities available for sale (non- current assets) - these amounted to USD 953 thousand as at December 31, 2010 compared to USD 2,813 thousand as at December 31, 2009. The decrease in this item, during year 2010, resulted by the sales of two (out of three) ARS securities, at USD 1,886 thousand (Par value - USD 1,975 thousand). The remaining said amount represents Company's holding of securities with an Auction Reset feature ("ARS"), which their fair value was assessed by a professional external appraisers company. See detailed information regarding Fair value analysis at paragraph B below.

Other Investments - Starting July 1st, 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).
During the fourth quarter of 2010 the Company made its best efforts to materialize this investment with no success. Therefore, as at December 31, 2010 the Company recognized impairment for value of the said investment.

Trade payables - these amounted to USD 2,211 thousand as at December 31, 2010 compared to USD 1,128 thousand as at December 31, 2009. The increase is explained by the increase in business activity.

Other payables - these amounted to USD 2,034 thousand as at December 31, 2010 compared to USD 1,238 thousand as at December 31, 2009. The increase resulted mainly due to increase in current liabilities to related parties and to employees.

B. Fair value analysis of Marketable Securities available for sale

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

During the first and the second quarters of 2010 the Company accepted offers to materialize two (out of three) 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.

As at December 31, 2010 the fair value of the remaining ARS was assessed at the amount of USD 953 thousand, compared to USD 949 thousand as at December 31, 2009 (Par value - USD 1,000 thousand). The valuation was prepared by an external, independent appraiser (Houlihan Smith & Company Inc.) having suitable professional skills.

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

Furthermore, management of the Company estimated that it will not be possible to materialize the said securities at their stated value in the short-term, therefore it intends to hold them for a long-term or until their value rises back to their par value or near to it.

The balance of the securities as at December 31, 2010 and 2009 was presented as long-term available for sale securities.

See also note 7 to the financial statements.

C. 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, short-term bank deposits and Long-term bank deposits. These balances are held in USD bearing USD interest rates given by banks (in the range of 1% to 2.5%), which changes from time to time.

Data on linkage terms

The financial statements of the Company reflect the functional currency of the Company, which is the USD.
Most of the Group's sales in the reported period were in USD or were linked to the USD. Approximately 11% of the Group's sales were in Euro.

Approximately 97% of the costs of raw material purchased by the Group during the reported period were in USD or were linked to the USD.

Approximately 85% of the Group's salaries during the reported year ended December 31, 2010 were in New Israeli Shekel ("NIS"), 15% 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 2010 the Company used derivatives, from time to time, as a tool for hedging, especially in order to hedge labor costs paid in NIS. With regards to all other operating costs, there is no need to use derivatives, since hedging is being kept inherently as part of the operational activity.

D. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Income Statements

	Total 2010	Total 2009	Quarter 10-12/10	Quarter 7-9/10	Quarter 4-6/10	Quarter 1-3/10
Sales revenues	24,890	14,005	6,202	7,685	7,059	3,944
Cost of sales	13,569	8,686	2,996	4,276	3,764	2,533
Gross profit	*11,321*	*5,319*	*3,206*	*3,409*	*3,295*	*1,411*
Development costs	(719)	(607)	(227)	(170)	(158)	(164)
Selling & marketing expenses	(2,112)	(1,060)	(595)	(580)	(569)	(368)
General & administrative expenses	(2,469)	(2,072)	(597)	(700)	(661)	(511)
Other expenses	(351)	-	(349)	-	(2)	-
Operating income	*5,670*	*1,580*	*1,438*	*1,959*	*1,905*	*368*
Finance income (expense), net	*32*	*570*	(45)	259	(142)	(40)
Profit before income taxes	*5,702*	*2,150*	*1,393*	*2,218*	*1,763*	*328*
Income taxes	(1,039)	(515)	(424)	(507)	(16)	(92)
Net profit for the period	*4,663*	*1,635*	*969*	*1,711*	*1,747*	*236*

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 (85%) 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 2010, went down by 5% compared to average rate of year 2009, reflecting an increase in the above-mentioned costs when they are presented in USD.
About 11% of the Group's sales in 2010 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 2010 were USD 24,890 thousand compared with USD 14,005 thousand in year 2009. The sales growth is an outcome of few new projects matured and transferred to production during year 2010. The sales were also affected by the global upturn.

***Gross profit* -** The Group's gross results for the year ended December 31, 2010 were USD 11,321 thousand (45%), compared with USD 5,319 thousand (38%), in the year ended December 31, 2009.
The increase in the gross profit relates to the growth in sales, whereas, part of the expenses included in the cost of sales did not increase in a similar proportion.

***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, 2010 were USD 719 thousand compared with USD 607 thousand in the year ended December 31, 2009.

***Selling & marketing expenses* -** The Group's selling & marketing expenses are based on the management policy and are not related to sales, except sales commissions to the Group's reps' and Marketing Personnel, which are calculated as a portion of sales. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.
The Group's Selling & marketing expenses for the year ended December 31, 2010 amounted to USD 2,112 thousand compared with USD 1,060 thousand in the year ended December 31, 2009. The increase in these expenses is inline with the increase in sales.

***General & Administrative expenses* -** The increase in these expenses in year 2010 compared with year 2009 stemmed of increase in Parent Company's joint G&A expenses mainly due to management incentives derived of the Group's improved profitability**.**

***Other Expenses* -** The Group's other expenses for the year ended December 31, 2010 were USD 351 thousand. These expenses were the result of the impairment recognized for value of the investment in former subsidiary "Payton Asia" (previously presented as other investment). See also paragraph 2A - "**Other investment"**, aforementioned.

***Finance income (expenses), net* -** The Group's finance income, net, for the year ended December 31, 2010 amounted to USD 32 thousand compared with USD 570 thousand in year 2009. The decrease in the finance income, net, resulted mainly due to erosion of financial assets (in Euro and in NIS), and loss from selling the ARS Marketable Securities available for sale.

***Income Taxes* -** Tax expenses for the year ended December 31, 2010 amounted to USD 1,039 thousand (18%). Tax expenses for the year ended December 31, 2009 amounted to USD 515 thousand (24%). The decrease in tax expenses percentage resulted mainly from local tax benefits.

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, 2010*	**December 31, 2009***
Current ratio[2]	4.52	3.61
Quick ratio[3]	4.13	3.22

* As at December 31, 2010 and as at December 31, 2009 - USD 2,064 thousand and USD 2,014 thousand, respectively, are presented as Long-term Deposits consisted of 3 years time deposits; enable a penalty free exit point after each year.

B. Operating activities

Cash flows generated from operating activities for the year ended December 31, 2010 amounted USD 4,490 thousand, compared with the cash flows generated from operating activities of USD 2,479 thousand for the year ended December 31, 2009. The increase in cash flows generated from operating activities was mostly affected by increase in: the net profit, trade receivables and trade payables - as result of the significant growth in business activity.

C. Investing activities

Cash flows generated from investing activities in the year ended December 31, 2010 amounted USD 2,223 thousand compared with Cash flows used for investing activities of USD 2,774 thousand in the year ended December 31, 2009.

Cash flows generated from investing activities in year 2010 resulted mainly from proceeds from sale of the "ARS" securities (see paragraph 2B above) and from proceeds from short-term bank deposits.

D. Financing activities

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

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

[3] 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.

5.3 The influence of the earthquake and the nuclear crisis in Japan on the global business economy is very hard to predict. However, it is very possible it will effect various global sectors such as: materials, labor, etc.

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

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

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

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

Rishon Lezion, March 24, 2011.

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

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

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, 2010, 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.

We did not audit the financial statements of a subsidiary whose assets constitute 7% of the total consolidated assets as at December 31, 2010 and whose revenues constitute 11% of the total consolidated revenues for the year ended December 31, 2010. The financial statements of the subsidiary were audited by other auditors whose reports thereon were furnished to us. Our opinion, insofar as it relates to amounts emanating from the financial statements of such subsidiary, is based solely on the said reports of the other auditors.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2010, 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 24, 2011

Consolidated Statements of Financial Position as at December 31

	Note	2010 $ thousands	2009 $ thousands
Current assets			
Cash and cash equivalents	5	**12,932**	7,961
Marketable securities held for trading	6	**1,638**	1,683
Short-term deposits	8	**3,921**	4,532
Trade accounts receivable	9	**5,428**	2,487
Other accounts receivable	9	**105**	111
Inventory	10	**2,245**	2,004
Total current assets		**26,269**	18,778
Non-current assets			
Long-term deposits	8	**2,064**	2,014
Marketable securities available for sale	7	**953**	2,813
Other investment	11	**-**	348
Fixed assets	12	**1,836**	1,758
Deferred taxes	22	**107**	71
Total non-current assets		**4,960**	7,004
Total assets		**31,229**	25,782

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

Michal Lichtenstein
V.P. Finance & CFO

March 24, 2011

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

	Note	2010 $ thousands	2009 $ thousands
Liabilities and equity			
Current liabilities			
Trade payables	13	**2,211**	1,128
Other payables	14	**2,034**	1,238
Dividend payable	20	**-**	1,679
Current tax liability		**1,571**	1,158
Total current liabilities		**5,816**	5,203
Non-current liabilities			
Employee benefits	15	**250**	194
Total non-current liabilities		**250**	194
Equity			
Share capital	20	**4,836**	4,836
Share premium		**8,993**	8,993
Capital fund for available-for-sale assets		**(47)**	(162)
Retained earnings		**11,381**	6,718
Total equity		**25,163**	20,385
Total liabilities and equity		**31,229**	25,782

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	Note	2010 $ thousands	2009 $ thousands
Revenues	21A	**24,890**	14,005
Cost of sales	21B	**(13,569)**	(8,686)
Gross profit		**11,321**	5,319
Development costs		**(719)**	(607)
Selling and marketing expenses	21C	**(2,112)**	(1,060)
General and administrative expenses	21D	**(2,469)**	(2,072)
Other expenses	21E	**(351)**	-
Operating income		**5,670**	1,580
Finance income	21F	**318**	599
Finance expenses	21F	**(286)**	(29)
Finance income, net		**32**	570
Profit before income taxes		**5,702**	2,150
Income taxes	22	**(1,039)**	(515)
Profit for the year		**4,663**	1,635
Other comprehensive income			
Net change in fair value of available-for-sale assets transferred to profit or loss		**89**	-
Net change in fair value of available-for-sale assets		**26**	153
Total comprehensive income for the year		**4,778**	1,788
Basic earnings per ordinary share (in $)	23	**0.26**	0.09

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, 2009	17,670,775	4,836	8,993	(315)	6,762	20,276
Total comprehensive income for the year						
Profit for the year	-	-	-	-	1,635	1,635
Other comprehensive income						
Net change in fair value of available-for-sale assets	-	-	-	153	-	153
Total comprehensive -	-	-	-	153	1,635	1,788
Transactions with owners, recorded directly in equity, contributions by and distribution to owners						
Dividend to equity holders	-	-	-	-	(1,679)	(1,679)
Balance at December 31, 2009	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**

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

Consolidated Statements of Cash Flows for the year ended December 31

	2010	2009
	$ thousands	$ thousands
Operating activities		
Profit for the year	**4,663**	1,635
Adjustments to reconcile profit to net cash generated from operating activities:		
Depreciation	**281**	256
Capital loss on sale of fixed assets	**3**	-
Impairment loss on other investment	**348**	-
Increase in employee benefits	**56**	42
(Increase) decrease in trade accounts receivables	**(2,941)**	1,229
Decrease (increase) in other accounts receivable	**35**	(53)
(Increase) decrease in inventory	**(241)**	68
Increase (decrease) in trade payables	**1,098**	(344)
Increase (decrease) in other payables and tax liability	**1,180**	(261)
(Increase) decrease in deferred taxes	**(36)**	19
Finance expenses (income), net	**44**	(112)
Cash flows generated from operating activities	**4,490**	2,479
Investing activities		
Investments in marketable securities held for trading	**-**	(784)
Proceeds from sale of marketable securities held for trading	**103**	442
Proceeds from sale of marketable securities available for sale	**1,886**	-
Proceeds from (investments in) short-term deposits, net	**611**	(33)
Investment in long-term deposits	**-**	(2,014)
Investment in fixed assets	**(415)**	(392)
Proceeds from sale of fixed assets	**38**	7
Cash flows generated from (used for) investing activities	**2,223**	(2,774)
Financing activities		
Dividend paid	**(1,679)**	-
Cash flows used for financing activities	**(1,679)**	-
Net increase (decrease) in cash and cash equivalents	**5,034**	(295)
Cash and cash equivalents at beginning of the year	**7,961**	8,230
Effect of exchange rate fluctuations on cash held	**(63)**	26
Cash and cash equivalents at end of the year	**12,932**	7,961
Supplementary disclosure		
Interest received included in cash flows generated from operating activities	**269**	309
Tax paid included in cash flows generated from operating activities	**691**	943

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”). 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, 2010 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 subsidiaries 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, “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 24, 2011.

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 at fair value through profit or loss;
* Financial instruments classified as available-for-sale;
* 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. 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.

E. Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The preparation of accounting estimates used in the preparation of the 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)

F. Changes in accounting policies

Business combination and transaction with non-controlling interests

As from January 1, 2010 the Group implements IFRS 3 *Business Combinations* (2008) and IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – IFRS 3 and IAS 27), respectively.
Implementation of IFRS 3 and IAS 27 did not have any effect on the Group's results of operations and the financial position.

G. Capital management – objectives, procedures and processes

Management's policy is to maintain a strong capital base in order to preserve the ability of the Company to continue operating so that it may provide a return on capital to its shareholders, benefits to other holders of interests in the Company such as credit providers and employees of the Company, and sustain future development of the business. The Board of Directors monitors the level of dividends to ordinary shareholders. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Note 3 - Significant Accounting Policies

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

A. Basis of consolidation

1. 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. In assessing control, potential voting rights that are currently exercisable are taken into account. 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 Company.

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

Note 3 - Significant Accounting Policies (cont'd)

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.

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. Any interest in transferred financial assets that is created or retained by the Group is recognized as a separate asset or liability.

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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

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.

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

The Group initially recognizes debt securities issued on the date that they are originated. All other 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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

3. Derivative financial instruments

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

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

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

5. Share capital

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.

A fixed asset item that was purchased in consideration for another non-monetary item in a transaction having a commercial substance is measured at fair value.

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.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets (cont'd)

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.

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.

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. 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)

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.

When testing for impairment available-for-sale financial assets that are equity instruments, the Group also examines the difference between the fair value of the asset and its original cost while taking into consideration the standard deviation of the instrument's price, the length of time the fair value of the asset is lower than its original cost and changes in the technological, economic or legal environment or in the market environment in which the issuer of the instrument operates. In addition a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in a provision for loss against receivables. Interest income on the impaired asset is recognized using the interest rate that was used to discount the future cash flows for the purpose of measuring the impairment loss.

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.

Note 3 - Significant Accounting Policies (cont'd)

F. Impairment (cont'd)

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

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. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income.

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.

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 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.

Note 3 - Significant Accounting Policies (cont'd)

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

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

The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date on Government debentures denominated in the same currency, that have maturity dates approximating the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method.

When 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 and any unrecognized actuarial gains and losses and past service cost.

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

Note 3 - Significant Accounting Policies (cont'd)

G. Employee benefits (cont'd)

1. Post-employment benefits (cont'd)

(b) Defined benefit plans (cont'd)

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.

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. When the value of time is material, the provision is measured at its present value.

Note 3 - Significant Accounting Policies (cont'd)

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.

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

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 interest expense on borrowings, 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 items recognized directly in equity or in other comprehensive income. Current taxes and deferred taxes relating to a transaction or event recognized directly in equity or in other comprehensive income, are 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.

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

- In the framework of *Improvements to IFRSs* 2010, in May 2010 the IASB published and approved 11 amendments to IFRS and to one interpretation on a wide range of accounting issues. Most of the amendments apply to periods beginning on or after January 1, 2011 and permit early adoption, subject to the specific conditions of each amendment.

  Presented hereunder are the amendments that may be relevant to the Group and are expected to have an effect on the financial statements:

  * Amendment to IAS 34 *Interim Financial Reporting* – Significant events and transactions (hereinafter – "the Amendment") – The Amendment expanded the list of events and transactions that require disclosure in interim financial statements, such as the recognition of a loss from the impairment in value of financial assets and changes in the classification of assets as a result of changes in their purpose or use. In addition, the materiality threshold was removed from the minimum disclosure requirements included in the Standard before its amendment. The Amendment is effective for annual periods beginning on or after January 1, 2011.

  * Amendment to IFRS 7 Financial Instruments: Disclosures – Clarification of disclosures (hereinafter – "the Amendment") – The Amendment requires adding 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 Amendment is effective for annual periods beginning on or after January 1, 2011. Early implementation is permitted with disclosure.

Note 3 - Significant Accounting Policies (cont'd)

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

- 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.

  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, 2013 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. In particular, if an entity adopts the Standard for reporting periods beginning before January 1, 2012 it is not required to restate prior periods.

  The Group has not yet commenced examining the effects of adopting the Standard on the financial statements.

Note 3 - Significant Accounting Policies (cont'd)

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

- IAS 24 (2009) *Related Party Disclosures* (hereinafter – "the Standard"). The new standard includes changes in the definition of a related party and changes with respect to disclosures required by entities related to government. The Standard is to be applied retrospectively for annual periods beginning on or after January 1, 2011. The Group is in the process of reassessing its relationships with related parties for the purpose of examining the effects of adopting the Standard on its financial statements.

Note 4 - Determination of Fair Values

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

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. Trade and other receivables

The fair value of trade and other receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. In periods subsequent to initial recognition, the fair value of trade and other receivables is determined for disclosure purposes only.

Note 5 - Cash and Cash Equivalents

	December 31 2010	December 31 2009
	$ thousands	$ thousands
Bank balances	**3,670**	4,445
Call deposits	**9,262**	3,516
	12,932	7,961

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

Note 6 - Marketable Securities Held for Trading

	December 31 2010	December 31 2009
	$ thousands	$ thousands
Mutual funds	**398**	73
Bonds	**686**	901
Preferred stocks 6.1% - 10.5%	**554**	709
	1,638	1,683

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

Note 7 - 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 are 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 light of current market conditions, the Company received a valuation regarding the remaining ARS in the amount of USD 1,000 thousand that it holds as at December 31, 2010. The valuation was prepared by external, independent appraisers having suitable professional skills. The Company included the decline in fair value in the amount of USD 47 thousand in a capital reserve as at December 31, 2010. In accordance with the valuation, the change in fair value of the aforementioned securities is due to changes in current market conditions and in the liquidity of the markets, and is not due to financial difficulties or liquidity problems of the instrument’s issuer.

Furthermore, management of the Company estimated that it will not be possible to materialize the said securities at their stated value in the short-term, therefore it intends to hold them for a long-term or until their value rises back to their par value or near to it. Therefore and in accordance with IAS 39, the Company did not recognize impairment of the securities.

The balance of the securities as at December 31, 2010 and 2009 was presented as long-term available for sale securities.

Note 8 - Deposits

Short term deposits

Short term deposits in dollars, bearing interest at an annual rate of approximately 1.26% - 1.57%.

Long term deposits

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.

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

Note 9 - Trade and Other Accounts Receivable

	December 31 2010 $ thousands	December 31 2009 $ thousands
Trade accounts receivable		
Open accounts	**5,415**	2,478
Checks payables	**13**	9
	5,428	2,487
Other accounts receivable		
Current tax assets	**29**	-
Government institutions	**-**	1
Other receivables	**76**	110
	105	111

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

Note 10 - Inventory

	December 31 2010 $ thousands	December 31 2009 $ thousands
Raw and packing material	**1,667**	1,505
Work-in-process	**170**	112
Finished products	**408**	387
	2,245	2,004

Note 11 - Other Investment

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).
During the fourth quarter of 2010 the Company made its best efforts to materialize this investment with no success. Therefore, as at December 31, 2010, the Company recognized impairment for value of the said investment, included in other expenses (see Note 21E).

Note 12 - Fixed Assets

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Improvements in leasehold	Land and Buildings	Total
	$ thousands					
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**
December 31, 2009						
Cost						
Balance as of January 1, 2009	2,036	104	637	384	913	4,074
Acquisitions	305	18	55	-	4	382
Disposals	(7)	(14)	-	-	-	(21)
Balance as of December 31, 2009	2,334	108	692	384	917	4,435
Accumulated depreciation						
Balance as of January 1, 2009	1,558	27	505	332	13	2,435
Depreciation for the year	128	15	70	16	27	256
Disposals	(5)	(9)	-	-	-	(14)
Balance as of December 31, 2009	1,681	33	575	348	40	2,677
Carrying amounts as of December 31, 2009	653	75	117	36	877	1,758

Note 12 - Fixed Assets (cont'd)

A. Acquisition of fixed assets on credit

During the year ended December 31, 2010, the Company acquired fixed assets on credit in the amount of USD 6 thousand (December 31,2009: USD 21 thousand).

B. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2010 the original cost of such assets is USD 2,727 thousand (December 31, 2009: USD 2,606 thousand).

Note 13 - Trade Payables

	December 31 2010	December 31 2009
	$ thousands	$ thousands
Open accounts	**2,202**	1,101
Checks payables	**9**	27
	2,211	1,128

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

Note 14 - Other Payables

	December 31 2010	December 31 2009
	$ thousands	$ thousands
Employees and related benefits	**730**	435
Related parties	**908**	575
Other payables and accrued expenses	**396**	228
	2,034	1,238

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

Note 15 - Employee Benefits

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

Composition of employee benefits:

	December 31 2010	December 31 2009
	$ thousands	$ thousands
Presented under other payables:		
Short-term employee benefits	**229**	144
Presented under non-current employee benefits:		
Recognized liability for defined benefit plan	**250**	194
Total employee benefits	**479**	338

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 2010	December 31 2009
	$ thousands	$ thousands
Present value of defined benefit obligation	**580**	468
Fair value of plan assets	**(330)**	(274)
Recognized liability for defined benefit obligations	**250**	194

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

	2010	2009
	$ thousands	$ thousands
Defined benefit obligations as at January 1	**468**	378
Benefits paid	**(4)**	-
Current service costs and interest costs	**62**	63
Changes in respect of foreign exchange differences	**30**	3
Actuarial losses	**24**	24
Defined benefit obligation as at December 31	**580**	468

Note 15 - Employee Benefits (cont'd)

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

2. Movements in plan assets

	2010	2009
	$ thousands	**$ thousands**
Fair value of plan assets as at January 1	**274**	226
Contributions paid	**32**	28
Expected return on plan assets	**17**	16
Changes in respect of foreign exchange differences	**17**	2
Asset return expense	**(9)**	(1)
Actuarial (losses) gains	**(1)**	3
Fair value of plan assets as at December 31	**330**	274

3. Expenses recognized in profit or loss

	For the year ended December 31	
	2010	**2009**
	$ thousands	**$ thousands**
Current service costs and interest costs	**62**	63
Expected return on plan assets	**(17)**	(16)
Asset return expense	**9**	1
Net actuarial losses in the year	**25**	21
Net change in respect of foreign exchange differences	**13**	1
	92	70
The expense is recognized in the following line items in the income statement:		
Cost of sales	**40**	38
Development expenses	**32**	28
Selling and marketing expenses	**-**	1
Administrative expenses	**7**	2
Finance expenses	**13**	1
	92	70

4. Actual return

	For the year ended December 31	
	2010	**2009**
	$ thousands	**$ thousands**
Actual return on plan assets	**16**	23

Note 15 - Employee Benefits (cont'd)

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

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. 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, 2010	**2.20%**
December 31, 2009	2.58%

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

iii. The expected real return on individual assets for 2010, as of January 1, 2010 is 2.58% (as of January 1, 2009 – 3.6%).

Note 15 - Employee Benefits (cont'd)

B. Post-employment benefit plans – defined contribution plan

	For the year ended December 31	
	2010	2009
	$ thousands	$ thousands
Amount recognized as expense in respect of defined contribution plan	**292**	236

Note 16 - Investments in Subsidiary Companies

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2010:

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

The Company holds 89% of the equity of Payton Holdings (an Israeli company).
Payton Holdings holds 3.74% of the paid up share capital of Champs. (See Note 11). The investment in Payton Holdings constitutes a capital note in NIS which is not linked to the CPI and does not bear any interest.

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

Payton America, a fully owned U.S. corporation, located in Florida U.S.A., manufactures and sells Planar transformers and inductors.

Note 17 - Commitments, Contingent Liabilities and Liens

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 2014 and 2018 accordingly. See also Note 25 regarding the real-estate property purchase agreement.

Note 18 - Financial Risk Management

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 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. Further quantitative disclosures are included throughout these consolidated financial statements.
The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Note 18 - Financial Risk Management (cont'd)

B. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade and other receivables 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.
See Note 19A and Note 21A regarding the distribution of customers.

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.

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.

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.

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 rarely uses derivatives as a tool for hedging.

Interest rate risk
The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents, marketable securities and short-term and long-term deposits which are in US dollars bearing interest rates given by or affected by banks in the range of 1%-2.5% which changes from time to time.

Note 19 - Financial Instruments

A. Credit risk

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	
	2010	2009
	Carrying amount	
	$ thousands	$ thousands
Cash and cash equivalents	**12,932**	7,961
Available-for-sale financial assets	**953**	2,813
Held for trading financial assets	**1,638**	1,683
Short-term deposits	**3,921**	4,532
Long-term deposits	**2,064**	2,014
Trade accounts receivable	**5,428**	2,487
	26,936	21,490

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	
	2010	2009
	Carrying amount	
	$ thousands	$ thousands
Israel	**195**	222
Asia	**2,922**	978
Europe	**1,409**	635
America	**902**	652
	5,428	2,487

The Group's most significant customers account for :

	December 31	
	2010	2009
	Carrying amount	
	$ thousands	$ thousands
Customer A	**2,349**	*
Customer B	*	13
Customer C	*	313
Customer D	**479**	*

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

Note 19 - Financial Instruments (cont'd)

A. Credit risk (cont'd)

2. Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31	
	2010	2009
	Gross	Gross
	$ thousands	$ thousands
Not past due	**4,337**	1,657
Past due 0-30 days	**881**	676
Past due 31-120 days	**210**	137
Past due 121 days to one year	**-**	17
	5,428	2,487

B. Liquidity risk

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	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	**1,705**	**1,705**	**1,705**
	3,916	**3,916**	**3,916**

	December 31, 2009		
	Carrying amount	Contractual cash flows	6 months or less
		$ thousands	
Non-derivative financial liabilities			
Trade payables	1,128	1,128	1,128
Other payables	1,085	1,085	1,085
Dividend payable	1,679	1,679	1,679
	3,892	3,892	3,892

Note 19 - Financial Instruments (cont'd)

C. Linkage and foreign currency risk

1. The exposure to linkage and foreign currency risk

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

	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	**5,559**	**-**	**-**	**5,559**
Trade and other receivables	**4,709**	**195**	**524**	**5,428**
Non-current assets:				
Marketable securities and deposits	**3,017**	**-**	**-**	**3,017**
Current liabilities:				
Trade and other payables	**(2,103)**	**(1,793)**	**(20)**	**(3,916)**
	22,935	**(1,544)**	**1,629**	**23,020**

	December 31, 2009			
	Dollar	**NIS**	***Other**	**Total**
	$ thousands			
Current assets:				
Cash and cash equivalents	6,883	11	1,067	7,961
Marketable securities and deposits	6,215	-	-	6,215
Trade and other receivables	1,989	222	276	2,487
Non-current assets:				
Marketable securities and deposits	4,827	-	-	4,827
Current liabilities:				
Trade and other payables	(978)	(1,210)	(25)	(2,213)
Dividend payable	(1,679)	-	-	(1,679)
	17,257	(977)	1,318	17,598

* Mainly Euro.

Note 19 - Financial Instruments (cont'd)

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

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

Information regarding significant exchange rates:

	Year ended December 31		Year ended December 31	
	2010	2009	2010	2009
	Rate of change		Reporting date spot rate	
	%	%	NIS	NIS
1 US dollar	**(5.99)**	(0.71)	**3.549**	3.775

	Year ended December 31		Year ended December 31	
	2010	2009	2010	2009
	Rate of change		Reporting date spot rate	
	%	%	Euro	Euro
1 US dollar	**7.93**	(3.34)	**0.749**	0.694

2. Sensitivity analysis

A strengthening of the USD against the following currencies as at December 31, 2010 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 2009.

	December 31, 2010	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	-	**(77)**
5% in the Euro	-	**78**

	December 31, 2009	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	-	(48)
5% in the Euro	-	58

A weakening 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.

Note 19 - Financial Instruments (cont'd)

D. Interest rate risk

1. Profile

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

	December 31	
	2010	2009
	Carrying amount	
	$ thousands	$ thousands
Fixed rate instruments		
Financial assets	**15,247**	10,735
Variable rate instruments		
Financial assets	**953**	2,813

As at December 31, 2010 the Group has two open futures transactions: one is the purchase of an option to sell USD 200 thousand for NIS 3.64 per each dollar and the other is the sale of an option to purchase USD 200 thousand for NIS 3.70 per dollar. The market value of these transactions as at December 31, 2010 was estimated at an income of USD 5 thousand and USD 0, respectively. The expiry date of the options is January 5, 2011.

2. 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).

Note 19 - Financial Instruments (cont'd)

E. Fair value (cont'd)

Fair value hierarchy (cont'd)

	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**

	December 31, 2009		
	Level 1	Level 2	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	1,683	-	1,683
Marketable securities available for sale	-	2,813	2,813
	1,683	2,813	4,496

Note 20 - Share Capital

A. Composition

	Number of shares		
	Authorized	Issued and paid	
	December 31, 2010 and 2009		
Ordinary shares of NIS 1 each	**20,000,000**	**17,670,775**	17,670,775

Note 20 - Share Capital (cont'd)

B. Dividends

The following dividends were declared and paid by the Company:

	Year ended December 31	
	2010	2009
	$ thousands	$ thousands
USD 0.095 per ordinary share	**1,697**	-

The following dividends were declared but have not yet been paid at the end of each reporting period:

	Year ended December 31	
	2010	2009
	$ thousands	$ thousands
USD 0.095 per ordinary share	-	1,679

Note 21 - Income Statement Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2010	2009
	$ thousands	$ thousands
Export	**24,270**	13,222
Local	**620**	783
	24,890	14,005

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	
	2010	2009
	%	%
Customer A	**28**	*
Customer B	*****	17
Customer C	*****	12
Customer D	**20**	*

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

Note 21 - Income Statement Data (cont'd)

B. Cost of sales

1. Cost of sales

	For the year ended December 31	
	2010	**2009**
	$ thousands	**$ thousands**
Materials consumed**	**8,825**	4,839
Salaries and related benefits	**3,541**	2,688
Depreciation	**183**	162
Other manufacturing expenses	**1,099**	1,007
Change inventory of finished products and work in process	**(79)**	(10)
	13,569	8,686

** Includes inventory write-off of USD 56 thousand and USD 41 thousand for the years ended December 31, 2010 and 2009, respectively.

2. Principal suppliers

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

	For the year ended December 31	
	2010	**2009**
	%	**%**
Supplier A	**62**	85
Supplier B	**18**	*

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

C. Selling and marketing expenses

	For the year ended December 31	
	2010	**2009**
	$ thousands	**$ thousands**
Salaries and related benefits	**553**	405
Sales commissions	**1,239**	372
Advertising and marketing	**62**	145
Exhibits and travel abroad	**226**	114
Other	**32**	24
	2,112	1,060

Note 21 - Income Statement Data (cont'd)

D. General and administrative expenses

	For the year ended December 31	
	2010	2009
	$ thousands	$ thousands
Salaries and related benefits	**544**	431
Office rent, maintenance and communications	**107**	103
Depreciation	**98**	94
Professional services	**100**	105
Management fee	**1,371**	1,107
Other	**249**	232
	2,469	2,072

E. Other expenses

	For the year ended December 31	
	2010	2009
	$ thousands	$ thousands
Capital loss on sale of fixed assets	**3**	-
Impairment loss on other investment	**348**	-
	351	-

F. Financial result

	For the year ended December 31	
	2010	2009
	$ thousands	$ thousands
Financing income		
Interest income from bank deposits	**151**	192
Income from marketable securities held for trading	**139**	167
Interest income from marketable securities available for sale	**27**	49
Exchange rate differences, net	**-**	118
Other	**1**	73
	318	599
Financing expenses		
Bank charges and others	**29**	23
Loss from sale of marketable securities available for sale	**89**	-
Exchange rate differences, net	**157**	-
Interest on transactions with parent company	**11**	6
	286	29

Note 21 - Income Statement Data (cont'd)

G. Transactions with related parties

	For the year ended December 31	
	2010	**2009**
	$ thousands	**$ thousands**
Selling and marketing	**333**	230
Management fees*	**1,371**	1,107
Financing expenses	**11**	6
Fees to directors	**18**	16
Salaries and related benefits	**71**	52

Regarding balances with related parties - see Note 14.

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

Beginning January 1, 2010 these expenses are allocated 89% to the Company and 11% to Payton Technologies Ltd. (a subsidiary of the parent company) (2009 – 88%, 12%, respectively).

Note 22 - Income Taxes

A. Details regarding the tax environment of the Company

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

(a) On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) – 2009, which provided, inter alia, a gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax 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%.

Current and deferred tax balances for the periods reported in these financial statements are calculated in accordance with the new tax rates specified in the Economic Efficiency Law.

(b) On September 17, 2009 Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) (Amendment) – 2009 were published following which there was an extensive change in Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) – 1986.

The Amendment applies to loans granted as from October 1, 2009, and also includes transitional provisions regarding loans granted before the effective date of the Amendment.

Note 22 - Income Taxes (cont'd)

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

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

As from October 1, 2009 the annual interest rate for purposes of Section 3(j) of the Ordinance, with respect to taxpayers granting a loan in NIS is 3.3% (unlinked). This interest rate is effective for the period from October 1, 2009 to December 31, 2009. As from January 1, 2010 the annual interest rate for purposes of Section 3(j) of the Ordinance is 3% (unlinked). This rate may change in the 2011 tax year based on the overall average cost of unlinked credit granted to the public by the banks, and issuance in the Official Gazette of an updated interest rate for purposes of Section 3(j) of the Ordinance by the Minister of Finance.

Conversely, when the loan is in foreign currency (as defined in the regulations) the interest rate with respect to Section 3(j) is according to the rate of change in the exchange rate of the relevant foreign currency plus 3%.

In addition, a special provision was included with respect to determination of the interest rate on a loan in NIS or in foreign currency that was granted in the 14 days before or after a loan with the same terms was received from a non-related party.

(c) On February 4, 2010 Amendment 174 to the Income Tax Ordinance - Temporary Order for Tax Years 2007, 2008 and 2009 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 2007-2009 tax years even if it was applied when preparing the financial statements. As yet there is no legislation regarding the non-application of International Financial Reporting Standards (IFRS) when determining the taxable income for 2010.
The effect on the financial statements of the Temporary Order with respect to the taxable income for the years 2007-2009 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. The various adjustments required by the aforesaid Law are designed to achieve taxation of income on a real 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.

Note 22 - Income Taxes (cont'd)

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

2. Taxation under inflation (cont'd)

In accordance with the Amendment, as from the 2008 tax year, income for tax purposes is no longer adjusted to a real (net of inflation) measurement basis. Furthermore, the depreciation of inflation immune assets and carried forward tax losses are no longer linked to the CPI, so that these amounts are adjusted until the end of the 2007 tax year after which they ceased to be linked to the CPI. The effect of the Amendment to the Adjustments Law is reflected in the calculation of current and deferred taxes as from 2008.

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.

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.

Note 22 - Income Taxes (cont’d)

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

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

(a) (cont'd)

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

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

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

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

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

(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 to not 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.

Note 22 - Income Taxes (cont’d)

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

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

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

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, 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.
The Company does not intend to implement the Amendment to the Law as from the 2011 tax year.

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 2005 tax year are considered to be final.

Note 22 - Income Taxes (cont'd)

D. Composition of income tax expense

	For the year ended December 31	
	2010	**2009**
	$ thousands	**$ thousands**
Current taxes	**1,075**	496
Deferred tax (income) expense	**(36)**	19
	1,039	515

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	
	2010	**2009**
	$ thousands	**$ thousands**
Tax rate	**25%**	26%
Profit before tax	**5,702**	2,150
Income tax using the domestic corporations tax rate	**1,426**	559
Additional tax in respect of foreign subsidiaries	**1**	(13)
Non-deductible expenses and tax exempt income, net	**94**	(3)
Tax exempt income due to Approve Enterprise status	**(557)**	(1)
Differences in basis of measurement for financial reporting and for tax purposes	**-**	1
Others	**75**	(28)
	1,039	515

Note 22 - Income Taxes (cont'd)

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:

	Property, plant and equipment	Carry-forward tax losses	Non-current liabilities for employee benefits	Employee benefits	Total
			$ thousands		
Balance as at January 1, 2009	13	-	38	39	90
Changes in 2009	(13)	-	(3)	(3)	(19)
Balance as at December 31, 2009	-	-	35	36	71
Changes in 2010	**-**	**7**	**10**	**19**	**36**
Balance as at December 31, 2010	**-**	**7**	**45**	**55**	**107**

Note 23 - Earnings Per Share

Basic earnings per share

	For the year ended December 31	
	2010	2009
	$ thousands	$ thousands
Profit for the year	**4,663**	1,635
Issued ordinary shares (in thousands of shares)	**17,671**	17,671
Basic earnings per ordinary share (in US$)	**0.26**	0.09

Note 24 - Information about Geographical Segments

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.

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

	For the year ended December 31, 2010			
	Europe and Israel (mainly Europe)	America	Asia	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Segment revenues	**7,068**	**6,110**	**11,712**	**24,890**
Segment result	**1,610**	**1,392**	**2,668**	**5,670**
Net financial result				**32**
Income taxes				**(1,039)**
Profit for the year				**4,663**
Segment assets	**2,813**	**1,939**	**4,862**	**9,614**
Unallocated assets				**21,615**
Total assets				**31,229**

Note 24 - Information about Geographical Segments (cont'd)

1. **(cont'd)**

	For the year ended December 31, 2009			
	Europe and Israel (mainly Europe)	America	Asia	Total
	$ thousands	$ thousands	$ thousands	$ thousands
Segment revenues	3,799	4,279	5,927	14,005
Segment result	428	483	669	1,580
Net financial result				570
Income taxes				(515)
Profit for the year				1,635
Segment assets	1,944	1,810	2,606	6,360
Unallocated assets				19,422
Total assets				25,782

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

Note 25 - Subsequent events

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 million excluding VAT). The Company expects to finance 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 area 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 anticipates that it could take about two years to be fully operational. The additional costs required for the completion and the move are estimated to about € 2.8 million. The Company will consider how to finance the additional cost, either by a bank loan or with its own resources.

The agreement execution is still subject to a suspending condition, valid for 90 days from its signing date and concerns the completion of the property registration in the local real-estate registration office.