P A Y T O N   G R O U P
I N T E R N A T I O N A L

Payton Planar Magnetics Ltd.

Annual Report 2009

Contents

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, 2009

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

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

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

A. The Group

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

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

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

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

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

[1] The financial statements as at December 31, 2009 form an integral part thereof.

- **Dividend Policy -** On November 26, 2009 the Company's Board of Directors decided to pay the members an interim dividend on account of the dividend for the financial year 2008, at the amount of USD 1,679 thousands (USD 0.095 per share, to be paid on January 12, 2010). The General Meeting (held on 25.1.10) approved the said amount as final.

- **Signing MOU licensing mass production - January 14, 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 monitors markets.

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

  Both companies have been introduced to each other by a present customer of Payton, a major global electronics company in Korea, in order to enable it to integrate the Planar Transformers in its mass consumer electronic products.

  According to the MOU, Bujeon is granted exclusive manufacturing and sales rights of Payton's unique Planar Transformers, to the TV and monitors markets, for 5 years, subject to minimum quotas of sales. In a first phase, Payton's products will be manufactured and supplied by Bujeon to Payton on an OEM-basis. The second phase will include royalty payments to Payton once Bujeon is recognized as an approved vendor.

  The Company considers this engagement as a strategic opportunity for the mass consumer electronics market.

  As of the date of signing these Financial Statements, the company is investing its best efforts in training Bujeon with its manufacturing expertise, expected to start the manufacturing from this facility by April 2010.

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, 2009 amounted to USD 14,005 thousand compared with USD 15,255 thousand for the year ended December 31, 2008. The sales in 2009 were mostly affected by the global slow-down.

Revenues for the year ended 2009 consisted of recurring sales to existing customers and sales to new ones.

The Sales were generated primarily from large telecom companies, 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 Company).

	For the year ended December 31	For the year ended December 31
	2009	2008
Customer A	*	19.0%
Customer B	16.7%**	*
Customer C	11.9%	15.0%

* Less than 10% of the Group's consolidated sales.
** It is noted that the major project of this customer ended on September 2009.

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

The significant downturn in the global financial markets that started in 2008 was still in affect during 2009. The increase in orders and backlog in December 2009 will affect the Group performance on 2010. During 2009, along with first signs of an upturn, financial entities in the United States as well as in other countries continued to collapse. The credit crisis still prevails and there is no guarantee that the direct consequences of this crisis came to an end. The concern is that the global economy in general, and the U.S. economy in particular, still struggles and will not recover from the recession so quickly.

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 shekel.

Company Management is closely monitoring all above-mentioned market fluctuations and will continue to track their developments and effects. In addition, Company Management is taking the necessary actions in order to cope with the situation, to the greatest extent possible.

Thanks to management's conservative cash planning policy, the Group holds a high balance of the cash, cash equivalents and deposits. Therefore, management estimates that the Group is financially strong and no liquidity problems are expected in the foreseeable future.

F. Marketing

During year 2009 the Group participated in the following exhibitions:

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

During 2009 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 and South Korea.
- 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, 2009 were USD 6,400 thousand; and as of March 22, 2010 this backlog amounted to USD 9,349 thousand (December 31, 2008 - 4,045 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 31.12.09 will be supplied until the end of December 2010.
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 2009, the Group employed 150 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.

During year 2009 the Company was also certified with two important International Quality Management Standards: for Automotive - TS16949:2002 and for Space & Avionic - AS9100.

Those Quality International certifications will open for Payton the doors of the Automotive and Space/Avionic markets and give Payton a competitive advantage over non-certified companies.

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 and South Korea 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 2010 the Group plans to continue its regular course of business and to maximize the business challenge of year 2010 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 also plans to further develop its strategic cooperation with the Korean company, Bujeon, in order to better penetrate the mass consumer electronics market and to broaden its mass production capabilities.

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.
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. <u>Financial position</u>

A. Statement of Financial Position as at December 31, 2009

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 14,176 thousand as at December 31, 2009 compared to USD 13,984 thousand as at December 31, 2008. It is noted that additional sum of USD 2,014 thousand is presented as a long-term deposit (see below).

Trade accounts receivable **-** these amounted to USD 2,487 thousand as at December 31, 2009 compared to USD 3,716 thousand as at December 31, 2008. Though the quarterly sales of Q4/2009 compared to Q4/2008 increased, a decrease in this item was noted, mainly due to a decrease in the average credit period.

Long-term deposits - these amounted to USD 2,014 thousand as at December 31, 2009 compared to USD 0 thousand as at December 31, 2008. 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 2,813 thousand as at December 31, 2009 compared to USD 2,660 thousand as at December 31, 2008. The said amounts represent Company’s holding of securities with an Auction Reset feature (“ARS”), which their fair value was assessed by a professional external appraisers company. See detailed information regarding Fair value analysis at paragraph B below.

Dividend payable - these amounted to USD 1,679 thousand as at December 31, 2009. This dividend was announced On November 2009 (USD 0.095 per share). It was paid in full on January 2010.

Current tax liability - this amounted to USD 1,158 thousand as at December 31, 2009 compared to USD 1,625 thousand as at December 31, 2008. The decrease in company’s liability is mainly due to tax payment made during 2009.

B. Fair value analysis of Marketable Securities available for sale

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

Starting year 2008 and in light of the liquidity crisis in the American market, the Company appealed for a valuation regarding the fair value of the ARS it holds. As at December 31, 2009 the fair value of ARS was assessed at the amount of USD 2,813 thousand, compared to USD 2,660 thousand as at December 31, 2008 (Par value - USD 2,975 thousand). The valuation was prepared by an external, independent appraiser (Houlihan Smith & Company Inc.) having suitable professional skills.

The Company included the total of this fair value decline, amounting USD 162 thousand in a capital reserve. It is noted that, according to that valuation, the change in fair value of the aforementioned securities is due to changes in current market conditions and in the liquidity of the markets, and is not due to financial difficulties or liquidity problems of the instrument's issuer.

Furthermore, management of the Company 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. However, on March 2010 the Company accepted an offer to materialize one of its ARS securities, assessed at the amount of USD 950 thousand (Par value - USD 1,000 thousand), at a rate of 96% from its par value. In exchange for this sale of ARS the Company received USD 961 thousand.

The balance of the securities as at December 31, 2009 and 2008 was presented as long-term available for sale securities.

See also note 6 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 0.2% to 2.5%), which changes from time to time. As of the date of signing these financial statements, and due to the economy liquidity crisis in the American market, the interest rate of Short-term bank Deposits held in USD significantly went down (Three month Libor rate decreased from 4% an average rate in 2008, to 0.22% at December 2009).

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 10% of the Group’s sales were in Euro.

Approximately 93% of the costs of raw material purchased by the Group during the reported period were in USD or were linked to the USD.

Approximately 88% of the Group’s salaries during the reported year ended December 31, 2009 were in New Israeli Shekel ("NIS"), 12% were in USD or linked to the USD.

Currency exposure risks

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

The Group is exposed to erosion of the USD in relation to the NIS. Devaluation of the U.S. Dollar with relation to the local Israeli currency leads to an increase in the Group’s labor costs. Most of the Group’s salaries and other operating costs are fixed in the local NIS. Recent 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 2009 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 2009	Total 2008	Quarter 10-12/09	Quarter 7-9/09	Quarter 4-6/09	Quarter 1-3/09
Sales revenues	14,005	15,255	3,603	4,017	3,673	2,712
Cost of sales	8,686	9,364	2,201	2,451	2,318	1,716
Gross profit	*5,319*	*5,891*	*1,402*	*1,566*	*1,355*	*996*
Development costs	(607)	(708)	(151)	(162)	(148)	(146)
Selling & marketing expenses	(1,060)	(1,280)	(342)	(306)	(227)	(185)
General & administrative expenses	(2,072)	(2,039)	(641)	(503)	(502)	(426)
Other income	-	7	-	-	1	(1)
Operating income	*1,580*	*1,871*	*268*	*595*	*479*	*238*
Finance income (expense), net	*570*	*179*	54	248	353	(85)
Profit before income taxes	*2,150*	*2,050*	*322*	*843*	*832*	*153*
Income taxes	(515)	(552)	(65)	(228)	(270)	48
Net profit for the period	*1,635*	*1,498*	*257*	*615*	*562*	*201*

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 (88%) 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 2009, went up by 10% compared to average rate of year 2008, reflecting a decrease in the above-mentioned costs when they are presented in USD.
About 10% of the Group's sales in 2009 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 2009 were USD 14,005 thousand compared with USD 15,255 thousand in year 2008. The sales were mostly affected by the global slow-down.

Gross profit - The Group's gross results for the year ended December 31, 2009 were USD 5,319 thousand (38%), about the same level compared with USD 5,891 thousand (39%) in the year ended December 31, 2008. Despite the sales decreases affected by the global slow-down the Company succeeded to maintain the gross profit margin level.

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, 2009 were USD

607 thousand compared with USD 708 thousand in the year ended December 31, 2008 (See also “General Note” above).

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

Finance income (expenses), net **-** The Group’s net finance income for the year ended December 31, 2009 amounted to USD 570 thousand compared to USD 179 thousand income for the year ended December 31, 2008. Exchange rate fluctuations of financial assets (in NIS and in Euro) and increase in marketable securities, explains most of the increase in the net finance income.

Income Taxes **-** Starting 2009 tax year, the Company is reporting to the Israeli tax authorities according to the financial statements in US Dollars. Until December 31, 2008 it reported the Israeli tax authorities according to financial statements in NIS.

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, 2009*	**December 31, 2008**
Current ratio[2]	3.61	4.77
Quick ratio[3]	3.22	4.27

* As at December 31, 2009 an amount of USD 2,014 thousands is presented as Long-term Deposits and consists of 3 years time deposits; enable a penalty free exit point after each year.

B. Operating activities

Cash flow generated from operating activities for the year ended December 31, 2009 amounted USD 2,479 thousand, compared with the cash flow generated from operating activities of USD 1,733 thousand for the year ended December 31, 2008. The increase in cash flow generated from operating activities resulted mainly from the decrease in trade receivables.

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

C. Investing activities

Cash flow used for investing activities in the year ended December 31, 2009 amounted USD 2,774 thousand compared with USD 2,523 thousand in the year ended December 31, 2008.

Cash flow used for investing activities in the year 2009 resulted mainly from investing in long-term deposits in marketable securities, in property and equipments.

4. Financing sources

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

5. External factors effects

Revaluation of the local Israeli currency in relation to the U.S. Dollar leads to an increase 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 negatively affected.

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

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

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

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

Rishon Lezion, March 24, 2010.

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Independent Auditors' Report to the Shareholders of Payton Planar Magnetics Ltd.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Payton Planar Magnetics Ltd. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in shareholders' equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statement 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 8% of the total consolidated assets as at December 31, 2009 and whose revenues constitute 21% of the total consolidated revenues for the year ended December 31, 2009. 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 based on our audit and on the reports of the abovementioned other auditors, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2009, and of its consolidated comprehensive income statement, the consolidated statement of changes in equity 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, 2010

Consolidated Statements of Financial Position as at December 31

	Note	2009 $ thousands	2008 $ thousands
Current assets			
Cash and cash equivalents	4	**7,961**	8,230
Marketable securities held for trading	5	**1,683**	1,255
Short-term deposits	7	**4,532**	4,499
Trade accounts receivable	8	**2,487**	3,716
Other accounts receivable	9	**111**	79
Inventory	10	**2,004**	2,072
Total current assets		**18,778**	19,851
Non-current assets			
Long-term deposits	7	**2,014**	-
Marketable securities available for sale	6	**2,813**	2,660
Other investment	11	**348**	348
Property, plant and equipment, net	12	**1,758**	1,639
Deferred taxes	13	**71**	90
Total non-current assets		**7,004**	4,737
Total assets		**25,782**	24,588

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

Michal Lichtenstein
V.P. Finance & CFO

March 24, 2010

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

	Note	2009 $ thousands	2008 $ thousands
Liabilities and equity			
Current liabilities			
Trade payables	14	**1,128**	1,482
Other payables	15	**1,238**	1,053
Dividend payable		**1,679**	-
Current tax liability		**1,158**	1,625
Total current liabilities		**5,203**	4,160
Non-current liabilities			
Employee benefits	16	**194**	152
Total non-current liabilities		**194**	152
Equity			
Share capital	21	**4,836**	4,836
Share premium		**8,993**	8,993
Capital fund for available-for-sale assets		**(162)**	(315)
Accumulated earnings		**6,718**	6,762
Total equity		**20,385**	20,276
Total liabilities and equity		**25,782**	24,588

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	Note	2009 $ thousands	2008 $ thousands
Revenues	22A	**14,005**	15,255
Cost of sales	22B	**(8,686)**	(9,364)
Gross profit		**5,319**	5,891
Development costs		**(607)**	(708)
Selling and marketing expenses	22C	**(1,060)**	(1,280)
General and administrative expenses	22D	**(2,072)**	(2,039)
Other income		**-**	7
Operating income		**1,580**	1,871
Finance income	22E	**599**	449
Finance expenses	22E	**(29)**	(270)
Finance income, net		**570**	179
Profit before income taxes		**2,150**	2,050
Income taxes	23	**(515)**	(552)
Net profit for the year		**1,635**	1,498
Other comprehensive income (expenses)			
Net change in fair value of available-for-sale assets		**153**	(315)
Total comprehensive income for the year		**1,788**	1,183
Basic and diluted earnings per ordinary share (in $)	24	**0.09**	0.08

The presentation of the statement of comprehensive income was changed as a result of the initial implementation of revised IAS 1 in these financial statements. See also Note 2E regarding changes in accounting policies.

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

Consolidated Statement of Changes in Equity

	Share capital		Share premium	Capital fund for available-for-sale assets	Accumulated earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Balance at January 1, 2008	17,670,775	4,836	8,993	-	5,264	19,093
Comprehensive income for the year	-	-	-	(315)	1,498	1,183
Balance at December 31, 2008	17,670,775	4,836	8,993	(315)	6,762	20,276
Comprehensive income for the year	-	-	-	**153**	**1,635**	**1,788**
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**

The presentation of the statement of changes in equity was changed as a result of the initial implementation of revised IAS 1 in these financial statements. See also Note 2E regarding changes in accounting policies.

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

Consolidated Statements of Cash Flows for the year ended December 31

	2009	2008
	$ thousands	**$ thousands**
Net Operating activities		
Net profit for the year	**1,635**	1,498
Adjustments to reconcile net profit to net cash generated from operating activities:		
Depreciation	**256**	227
Capital gain on sale of equipment	**-**	(7)
Increase in employee benefits	**42**	28
Decrease in trade receivables	**1,229**	561
(Increase) decrease in other accounts receivable	**(53)**	66
Decrease (increase) in inventory	**68**	(90)
Decrease in trade payables	**(344)**	(118)
Decrease in other payables and tax liability	**(261)**	(613)
Decrease in deferred taxes	**19**	32
Finance (income) expenses, net	**(112)**	149
Cash flows generated from operating activities	**2,479**	1,733
Investing activities		
Investments in marketable securities held for trading	**(784)**	(747)
Investments in marketable securities available for sale	**-**	(1,000)
Proceeds from sale of marketable securities held for trading	**442**	-
Proceeds from sale of marketable securities available for sale	**-**	1,039
Investments in short-term deposits	**(33)**	(1,309)
Investment in long-term deposits	**(2,014)**	-
Investment in property, plant and equipment	**(392)**	(547)
Proceeds from sale of equipment	**7**	41
Cash flows used for investing activities	**(2,774)**	(2,523)
Net decrease in cash and cash equivalents	**(295)**	(790)
Cash and cash equivalents at beginning of the year	**8,230**	9,063
Effect of exchange rate fluctuations on cash held	**26**	(43)
Cash and cash equivalents at end of the year	**7,961**	8,230
Supplementary disclosure		
Interest received included in cash flows generated from operating activities	**309**	436
Tax paid included in cash flows generated from operating activities	**943**	199

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

Note 1 - General

A. Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992 and its headquarters are located at 14 Hahoma Street, Rishon Le Zion. The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). In June 1998, the Company completed its initial public offering in the Euro NM.

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

Note 2 - Basis of Preparation

A. Definitions

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.

B. Statement of measurement

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") 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, 2010.

Note 2 - Basis of Preparation (cont'd)

C. Basis of measurement

The consolidated financial statements are presented in dollars, the Company's functional currency, rounded to the nearest thousand.

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities that are stated at fair value: financial instruments at fair value through profit or loss and financial instruments classified as available-for-sale.

Deferred tax assets and liabilities are provided for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred taxes are 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.

The amount recognized as a defined benefit liability is the present value of the defined benefit obligation at the end of the reporting period less any unrecognized past service cost and less the fair value at the end of the reporting period of plan assets that will directly serve to settle the obligation.

D. 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)

E. Changes in accounting policies

1. Presentation of financial statements

As from January 1, 2009 the Group implements revised IAS 1, *Presentation of Financial Statements* (hereinafter – the Standard). The Standard allows the presentation of one statement of comprehensive income (a combined statement of income and of other comprehensive income) or two statements – a statement of income and a separate statement of comprehensive income.

The Group has chosen to present a combined statement of income and of other comprehensive income. Furthermore, the Group presents a statement of changes in equity immediately after the statement of comprehensive income instead of in the notes. The statement includes changes in equity resulting from transactions with shareholders in their capacity as owners (such as dividends). The Standard is applied on a retrospective basis. Since the change only impacts the presentation of the financial statements, there is no impact on the Company's results of operations.

2. Segment reporting

As from January 1, 2009 the Group implements IFRS 8, *Operating Segments* (hereinafter – the Standard). The Standard determines that the "management approach" should be used in segment reporting, meaning in accordance with the format of the internal reports provided to the chief operating decision maker of the Group.

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 International Financial Reporting Standards.

F. 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, except as explained in Note 2E, Basis of Preparation, under the section addressing changes in accounting policies.

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. Intra-group balances and transactions, and any unrealized gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

B. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the period, 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 period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments, which are recognized in other comprehensive income. 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, including assets designated at fair value through profit or loss, 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.

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

Derecognition of financial assets
Financial assets are derecognized when the contractual rights of the Group to the cash flows from the asset expire, or the Group transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. 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. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy or providing that the designation is intended to prevent an accounting mismatch. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade and other receivables.

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

Note 3 - Significant Accounting Policies (cont'd)

C. Financial instruments (cont'd)

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

Available-for-sale financial assets
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified in any of the previous categories. The Group's investments in certain debt securities are classified as available-for-sale financial assets. Upon initial recognition and in subsequent periods, these investments are measured at fair value and changes therein, other than impairment losses, foreign currency differences and the accrual of effective interest on available-for-sale monetary items, 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 (including financial liabilities designated at fair value through profit or loss) 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 (other than financial liabilities at fair value through profit or loss) are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group currently has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. Derivative financial instruments

Derivatives that do not serve hedging purposes
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.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets - property, plant and equipment

1. Recognition and measurement

Fixed assets 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, and the costs of dismantling and removing the items and restoring the site on which they are located, and capitalized borrowing costs. 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 (including costs of major periodic inspections) have different useful lives, they are accounted for as separate items (major components) of fixed assets.

Gains and losses on disposal of a fixed asset item are determined by comparing the proceeds from disposal with the carrying amount of the asset, and are recognized net within "other income" or "other expenses", as relevant, in profit or loss.

2. Subsequent costs

The cost of replacing part of a fixed asset item 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. Land is not depreciated.

Note 3 - Significant Accounting Policies (cont'd)

D. Fixed assets - property, plant and equipment (cont'd)

3. Depreciation (cont'd)

Annual rates of depreciation are as follows:

	%	
Buildings	3	
Machinery and equipment	15	
Motor vehicles	15	
Computers and office equipment	6 – 33	(mainly 33%)

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. Inventory

1. Inventory is stated at the lower of cost or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

2. The cost of inventories is based on the first-in first-out principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

F. Impairment

1. 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.

Note 3 - Significant Accounting Policies (cont'd)

F. Impairment (cont'd)

1. Financial assets (cont'd)

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 loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and 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 removed from other comprehensive income and recognized in 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 time value are reflected as a component of financing income.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost and available-for-sale financial assets that are debt securities, the reversal is recognized in profit or loss. For available-for-sale financial assets that are equity securities, the reversal is recognized directly in other comprehensive income.

Note 3 - Significant Accounting Policies (cont'd)

F. Impairment (cont'd)

2. Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its 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.

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.

Note 3 - Significant Accounting Policies (cont'd)

G. Employee benefits (cont'd)

1. Post-employment benefits (cont'd)

(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.

The Company 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.

These plan assets are for a defined benefit plan that includes two liability components: a defined benefit plan component for severance pay, which is calculated on an actuarial basis as aforementioned, and another component that is the obligation to pay the accumulated profit in real terms (if any) upon the retirement of the employee. This component is measured at the balance of the actual profit in real terms that accumulated at the reporting date.

Note 3 - Significant Accounting Policies (cont'd)

G. Employee benefits (cont'd)

2. Short term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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.

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 Company 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.

I. Revenue recognition

Revenue from the sale of goods in the ordinary course of business is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. 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 from the sale of goods is recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.
No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due, associated costs or possible return of goods.

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.

Note 3 - Significant Accounting Policies (cont'd)

J. Development costs

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

K. Joint expenses of the Company and related companies

Beginning January 1, 2009 the joint general and administrative expenses of the Company and of Payton Technologies Ltd. (a subsidiary of the parent company) are allocated 88% to the Company and 12% to Payton Technologies Ltd. (2008 - 87%, 13%, respectively).

L. Finance Income and expenses

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss and foreign currency gains that are recognized in profit or loss. 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.

Finance expenses comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss. All borrowing costs are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

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.

Note 3 - Significant Accounting Policies (cont'd)

M. Income tax (cont'd)

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 and affiliates, 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.

N. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

O. New standards and interpretations not yet adopted

- Revised IFRS 3 *Business Combinations* (2008) and Revised IAS 27 *Consolidated and Separate Financial Statements* (2008) (hereinafter – the Standards). The principal relevant revisions in the Standards are as follows:

  a. The definition of a business has been broadened, so that more acquisitions will be treated as business combinations.

  b. Transactions resulting in discontinuance of consolidation are to be accounted for at full fair value, so that the residual holding after discontinuance of the consolidation is remeasured on the date of discontinuing the consolidation, at fair value, through profit or loss.

  c. Transactions resulting in the consolidation of financial statements (that were not consolidated before then) are to be accounted for at full fair value, so that the original holding before the consolidation is remeasured on the first date of consolidation, at fair value, through profit or loss.

Note 3 - Significant Accounting Policies (cont'd)

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

d. The minority interest will be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

e. Acquisitions of additional shares or partial sales of existing shares, without the Company discontinuing consolidation of the financial statements of the companies in respect of which the transactions were performed, are to be accounted for so that all the differences deriving from the transactions are included directly in equity (including differences that in the past would have been included in profit or loss or as goodwill).

f. Transaction costs will be expensed as incurred.

g. Measurement at fair value of contingent considerations in business combinations with changes in estimates relating to a contingent consideration that is a financial liability being recognized in profit or loss.

h. Goodwill is not to be adjusted in respect of the utilization of carry-forward tax losses that existed on the date of acquiring businesses.

i. The attribution of comprehensive income to all the shareholders.

These standards shall apply to annual periods beginning on or after January 1, 2010. The principal revisions of these standards shall be applied prospectively, meaning in respect of transactions as from the initial date of implementation.

The standard is not anticipated to have an effect on the financial statements of the Group.

- Amendment to IFRS 2 *Share-Based Payment* – Group cash-settled share-based payment transactions (hereinafter – the Amendments). The Amendments provides the accounting treatment of group share-based payment transactions by the entity that receives the goods or services and by the entity that settles the transaction, and supersedes IFRIC 8 as regards the scope of IFRS 2 and IFRIC 11 as regards group and treasury share transactions. According to the Amendments, an entity that receives goods or services shall recognize an equity-settled share-based payment transaction when it grants equity instruments in the transaction or when it does not have a commitment to settle the transaction. In all other circumstances, the entity shall recognize a cash-settled share-based payment transaction. The settling entity shall recognize an equity-settled share-based payment transaction only when it settles the transaction with equity instruments, and in all other cases the entity shall recognize a cash-settled share-based payment transaction. The Amendments will be applied retrospectively, subject to the transitional provisions of IFRS 2, as from annual periods beginning on or after January 1, 2010.

  The standard is not anticipated to have an effect on the financial statements of the Group.

Note 3 - Significant Accounting Policies (cont'd)

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

- IFRIC 17, *Distributions of Non-cash Assets to Owners* (hereinafter – the Interpretation). The Interpretation provides that the obligation of a company for the distribution of non-cash assets to owners is to be accounted for as a liability for the payment of a dividend and be measured at the fair value of the assets to be distributed with any changes in fair value until the date of distribution being recognized in equity. At the time of the distribution, any difference between the carrying amount of the assets and the amount of the liability is recognized in profit or loss, as a separate line item. The Interpretation is to be applied prospectively for annual periods beginning on or after January 1, 2010.

  The interpretation is not anticipated to have an effect on the financial statements of the Group.

- In the framework of the 2009 Improvements to IFRSs project, in April 2009 the IASB published and approved 15 amendments to various IFRS on a wide range of accounting issues. The amendments shall apply to periods beginning on or after January 1, 2010 and permit early adoption, subject to the specific conditions of each amendment.

  Presented hereunder are the amendments that may be relevant to the Group:

  * Amendment to IAS 36, *Impairment of Assets* – Unit of accounting for goodwill impairment test (hereinafter – the Amendment) – In accordance with the Amendment, for purposes of impairment testing the largest cash-generating unit to which goodwill should be allocated is the operating segment level as defined in IFRS 8 before applying the aggregation criteria in Paragraph 12 of IFRS 8. The Amendment is to be applied prospectively for annual periods beginning on or after January 1, 2010.

  * Amendment to IAS 39, *Financial Instruments: Recognition and Measurement* – Scope exemption for business combination contracts (hereinafter – the Amendment) – The Amendment clarifies that the scope exemption in IAS 39 is restricted to forward contracts between an acquirer and a seller with respect to the sale or acquisition of a controlled entity, in a business combination at a future acquisition date. In addition, the term of the forward should not be longer than the period normally necessary for obtaining the approvals required for the transaction. The Amendment is to be applied prospectively to all unexpired contracts for annual periods beginning on or after January 1, 2010.

  Adoption of improvements is not anticipated to have an effect on the financial statements of the Group.

Note 3 - Significant Accounting Policies (cont'd)

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

- IFRS 9, *Financial Instruments* (hereinafter – the Standard). This standard is the first part of 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. 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 financial 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 measured through other comprehensive income are recognized in profit or loss unless they clearly constitute a return on an initial investment. The Standard removes financial liabilities from its scope.

  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 is examining the anticipated effects of the Standard on its financial statements.

Note 4 - Cash and Cash Equivalents

	December 31 2009	December 31 2008
	$ thousands	$ thousands
U.S. dollars	**6,883**	6,846
Other currencies	**1,078**	1,384
	7,961	8,230

Note 5 - Marketable Securities Held for Trading

	December 31 2009	December 31 2008
	$ thousands	$ thousands
Mutual funds	**73**	54
Bonds	**901**	726
Preferred stocks 6.1% - 7%	**709**	475
	1,683	1,255

Note 6 - Marketable Securities Available For Sale

The Company invested in Auction Rate Securities (ARS) that are securities issued by local authorities, higher education institutions and others for long terms, for the purpose of the securitization of their assets. These securities are classified as available for sale securities.

In light of current market conditions, the Company received a valuation regarding ARS in the amount of US$2,975 thousand that it holds as at December 31, 2009. The valuation was prepared by external, independent appraisers having suitable professional skills. The Company included the decline in fair value in the amount of US$162 thousand in a capital reserve as at December 31, 2009. 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.

However, on March 2010 the Company accepted an offer to materialize one of its ARS securities, assessed at the amount of USD 950 thousand (Par value - USD 1,000 thousand), at a rate of 96% from its par value. In exchange for this sale of ARS the Company received USD 961 thousand.

The balance of the securities as at December 31, 2009 and 2008 was presented as long-term available for sale securities.

Note 7 - Deposits

Short term deposits

Short term deposits in dollars, bearing interest at an annual rate of approximately 1.23% - 1.75%.

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).

Note 8 - Trade Accounts Receivable

	December 31 2009	December 31 2008
	$ thousands	$ thousands
Local	**222**	215
Abroad (mainly in dollars)	**2,265**	3,501
	2,487	3,716

Note 9 - Other Accounts Receivable

	December 31 2009	December 31 2008
	$ thousands	$ thousands
Government institutions	**1**	1
Prepaid expenses and sundry	**110**	78
	111	79

Note 10 - Inventory

	December 31 2009	December 31 2008
	$ thousands	$ thousands
Raw and packing material	**1,505**	1,583
Work-in-process	**112**	153
Finished products	**387**	336
	2,004	2,072

Note 11 - Other Investment

Represents the Company's share holdings in Champs Technologies Co. (hereinafter- Champs) (formerly: Payton Asia Planar Magnetics) of 10.7% (includes 3.74% held by a subsidiary Payton Planar Holdings (1996) Ltd.).

Note 12 - Property, Plant and Equipment, Net

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Improvements in leasehold	Land and Buildings	Total
	$ thousands					
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**
December 31, 2008						
Cost						
Balance as of January 1, 2008	1,828	102	529	368	746	3,573
Acquisitions	208	56	116	16	167	563
Disposals	-	(54)	(8)	-	-	(62)
Balance as of December 31, 2008	2,036	104	637	384	913	4,074
Accumulated depreciation						
Balance as of January 1, 2008	1,461	33	441	301	-	2,236
Depreciation for the year	97	16	70	31	13	227
Disposals	-	(22)	(6)	-	-	(28)
Balance as of December 31, 2008	1,558	27	505	332	13	2,435
Carrying amounts as of December 31, 2008	478	77	132	52	900	1,639

Note 13 - Deferred Taxes

	Property, plant and equipment	Non-current liabilities for employee benefits	Employee benefits	Total
	$ thousands			
Balance as at January 1, 2008	34	46	42	122
Changes in 2008	(21)	(8)	(3)	(32)
Balance as at December 31, 2008	13	38	39	90
Changes in 2009	**(13)**	**(3)**	**(3)**	**(19)**
Balance as at December 31, 2009	**-**	**35**	**36**	**71**

Note 14 - Trade Payables

	December 31 2009	December 31 2008
	$ thousands	$ thousands
Israeli suppliers	**335**	414
Foreign suppliers	**766**	1,033
Post-dated checks payable	**27**	35
	1,128	1,482

Note 15 - Other Payables

	December 31 2009	December 31 2008
	$ thousands	$ thousands
Employees and related benefits	**435**	396
Related parties	**575**	398
Other payables and accrued expenses	**228**	259
	1,238	1,053

Note 16 - Employee Benefits

A. Israeli labor laws and agreements require the Company to pay severance pay to dismissed or retiring employees (including those leaving their employment under certain other circumstances). The calculation of the severance pay liability was made in accordance with labor agreements in force and based on salary components which, in management's opinion, create entitlement to severance pay.

B. The Israeli company's severance pay liabilities to its employees are funded partially by regular deposits with recognized pension and severance pay funds in the employees' names and by purchase of insurance policies and are accounted for as defined benefit plans.

C. Employees benefits are comprised as follows:

	December 31 2009	December 31 2008
	$ thousands	$ thousands
Present value of defined benefit obligation	**468**	378
Fair value of plan assets	**(274)**	(226)
Recognized liability for defined benefit obligations	**194**	152

Liability for defined benefit obligations

The Group makes contributions to defined benefit plans that provide pension benefits for employees upon retirement.

Post-employment benefit plans – defined benefit plan

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

	2009	2008
	$ thousands	$ thousands
Defined benefit obligations as at January 1	**378**	371
Benefits paid	**-**	(15)
Current service costs and interest costs	**63**	75
Changes in respect of foreign exchange differences	**3**	4
Actuarial losses (gains)	**24**	(57)
Defined benefit obligation as at December 31	**468**	378

Note 16 - Employee Benefits (cont'd)

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

2. Movements in plan assets

	2009 $ thousands	2008 $ thousands
Fair value of plan assets as at January 1	**226**	247
Contributions paid	**28**	35
Benefits paid	**-**	(10)
Expected return on plan assets	**16**	15
Changes in respect of foreign exchange differences	**2**	3
Asset return expense	**(1)**	52
Actuarial gains (losses)	**3**	(116)
Fair value of plan assets as at December 31	**274**	226

3. Expenses recognized in the income statement

	For the year ended December 31	
	2009 $ thousands	2008 $ thousands
Current service costs	**31**	45
Interest cost	**32**	30
Expected return on plan assets	**(16)**	(15)
Asset return expense	**1**	(52)
Net actuarial losses in the year	**21**	59
	69	67
The expense is recognized in the following line items in the income statement:		
Cost of sales	**38**	32
Development expenses	**28**	21
Selling and marketing expenses	**1**	2
Administrative expenses	**2**	12
	69	67

4. Actual return

Actual return on individual assets	**23**	(57)

Note 16 - Employee Benefits (cont'd)

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

5. Principal 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. This is a change from 2007 report which used circular 2007-1-3, the impact is negligible.

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

iii. The leave rate assumed has been based upon analysis of the Company's experience.

- The following 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 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%

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 should be 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, 2009	**2.58%**
December 31, 2008	3.60%

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

iii. The real rate of growth of the accrued balance in individual savings plans for policies issued before January 1, 2004 is assumed to be 0.0%. p.a. (this reflects the policy wording, which allocates earnings on the severance pay to the Tagmulim portion of the policy) and 3.0% net return for other policies.

Note 17 - Investments in Subsidiary Companies

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2009:

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 which is not linked to the CPI and does not bear any interest.

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

During the year 1998, the Company, through its wholly-owned U.S. subsidiary, Payton America, acquired from Mr. Alex Estrov all the shares of MTC, another U.S. corporation, following which MTC merged into Payton America. Payton America manufactures and sells Planar transformers and inductors.

Note 18 - Commitments, Contingent Liabilities and Liens

The Company has a commitment for a monthly rent of about $21 thousand and $6 thousand for its premises in Israel up to 2014 and 2018 accordingly.

Note 19 - 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 19 - 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 receivables from customers and investment securities.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Credit evaluations are performed on all customers requiring credit over a certain amount. The Company has credit risk insurance for most of its customers exceeding a scope of operations of $10 thousand per year. Approximately 29 percent of the Group's revenue is attributable to sales transactions with two principal customers.

C. Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. 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
Investments made in bank deposits and marketable securities. 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 0.2%-2.5% which changes from time to time.

Note 20 - 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	
	2009	2008
	Carrying amount	
	$ thousands	$ thousands
Cash and cash equivalents	**7,961**	8,230
Available-for-sale financial assets	**2,813**	2,660
Held for trading financial assets	**1,683**	1,255
Short-term deposits	**4,532**	4,499
Long-term deposits	**2,014**	-
Trade accounts receivable	**2,487**	3,716
Other accounts receivable	**-**	26
	21,490	20,386

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	
	2009	2008
	Carrying amount	
	$ thousands	$ thousands
Israel	**222**	215
Asia	**978**	1,646
Europe	**635**	1,001
America	**652**	854
	2,487	3,716

The Group's most significant customers account for :

	December 31	
	2009	2008
	Carrying amount	
	$ thousands	$ thousands
Customer A	*****	620
Customer B	**13**	*
Customer C	**313**	173

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

Note 20 - 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	
	2009	2008
	Gross	Gross
	$ thousands	$ thousands
Not past due	**1,657**	2,434
Past due 0-30 days	**676**	794
Past due 31-120 days	**137**	488
Past due 120 days to one year	**17**	-
	2,487	3,716

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, 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**

	December 31, 2008		
	Carrying amount	Contractual cash flows	6 months or less
		$thousands	
Non-derivative financial liabilities			
Trade payables	1,482	1,482	1,482
Other payables	893	893	893
	2,375	2,375	2,375

Note 20 - 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, 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**

	December 31, 2008			
	Dollar	**NIS**	***Other**	**Total**
	$thousands			
Current assets:				
Cash and cash equivalents	6,846	470	914	8,230
Marketable securities and deposits	5,754	-	-	5,754
Trade and other receivables	3,202	215	325	3,742
Non-current assets:				
Marketable securities	2,660	-	-	2,660
Current liabilities:				
Trade and other payables	(1,292)	(1,050)	(33)	(2,375)
	17,170	(365)	1,206	18,011

* Mainly Euro.

Note 20 - 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	
	2009	2008	2009	2008
	Rate of change		Reporting date spot rate	
	%	%	NIS	NIS
1 US dollar	**(0.71)**	(1.14)	**3.775**	3.802

	Year ended December 31		Year ended December 31	
	2009	2008	2009	2008
	Rate of change		Reporting date spot rate	
	%	%	Euro	Euro
1 US dollar	**(3.34)**	5.59	**0.694**	0.718

2. Sensitivity analysis

A strengthening of the NIS against the following currencies as at December 31, 2009 and an increase in the CPI 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 2008.

	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**

	December 31, 2008	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	-	(18)
5% in the Euro	-	57

A weakening of the US$ 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 20 - 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	
	2009	**2008**
	Carrying amount	
	$ thousands	**$ thousands**
Fixed rate instruments		
Financial assets	**10,735**	8,171
Variable rate instruments		
Financial assets	**2,813**	2,660

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 20 - Financial Instruments (cont'd)

E. Fair value (cont'd)

Fair value hierarchy (cont'd)

	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**

	December 31, 2008		
	Level 1	Level 2	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	1,255	-	1,255
Marketable securities available for sale	-	2,660	2,660
	1,255	2,660	3,915

Note 21 - Share Capital

A. Composition

	Number of shares		
	Authorized	Issued and paid	
	December 31, 2009 and 2008		
Ordinary shares of NIS 1 each	**20,000,000**	**17,670,775**	17,670,775

In June 1998 the Company completed an offering (on the Euro-NM) to the public of 5,150,000 ordinary shares comprising 29.26% of the Company's issued and outstanding share capital subsequent to such issue, in consideration for 360,500,000 BEF (before issue expenses) (December 31, 2009 and 2008: 29.14%).

Note 21 - Share Capital (cont'd)

B. Dividends

The following dividends were declared but have not yet been paid at the end of each reporting period (in USD thousand).

	Year ended December 31	
	2009	2008
	$ thousands	$ thousands
USD 0.095 per ordinary share	**1,679**	-

Note 22 - Income Statement Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2009	2008
	$ thousands	$ thousands
Export	**13,222**	14,657
Local	**783**	598
	14,005	15,255

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	
	2009	2008
	%	%
Customer A	*****	19
Customer B	**17**	*
Customer C	**12**	15

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

Note 22 - Income Statement Data (cont'd)

B. Cost of sales

	For the year ended December 31	
	2009	2008
	$ thousands	$ thousands
Materials consumed*	**4,829**	5,102
Salaries and related benefits	**2,688**	2,982
Depreciation	**162**	136
Other manufacturing expenses	**1,007**	1,144
	8,686	9,364

* Includes inventory write-off of $41 thousand and $50 thousand for the years ended December 31, 2009 and 2008, respectively.

Includes purchases from a principal supplier (which make up in excess of 10% of the purchases of the Group):

	For the year ended December 31	
	2009	2008
	%	%
Supplier A	**85**	63

C. Selling and marketing expenses

	For the year ended December 31	
	2009	2008
	$ thousands	$ thousands
Salaries and related benefits	**405**	443
Distribution commissions	**372**	485
Advertising and marketing	**145**	120
Exhibits and travel abroad	**114**	184
Other	**24**	48
	1,060	1,280

D. General and administrative expenses

	For the year ended December 31	
	2009	2008
	$ thousands	$ thousands
Salaries and related benefits	**431**	466
Office rent, maintenance and communications	**103**	110
Depreciation	**94**	91
Professional services	**105**	109
Management fee	**1,107**	984
Other	**232**	279
	2,072	2,039

Note 22 - Income Statement Data (cont'd)

E. Financial result

	For the year ended December 31	
	2009	2008
	$ thousands	$ thousands
Financing income		
Interest income from bank deposits	**192**	307
Income from marketable securities held for trading	**167**	-
Income from marketable securities available for sale	**49**	114
Exchange rate differences, net	**118**	-
Other	**73**	28
	599	449
Financing expenses		
Bank charges and others	**23**	28
Loss from marketable securities held for trading	**-**	45
Exchange rate differences, net	**-**	159
Interest on transactions with parent company	**6**	38
	29	270

F. Transactions with related parties

	For the year ended December 31	
	2009	2008
	$ thousands	$ thousands
Selling and marketing	**230**	264
Management fees*	**1,107**	984
Financing expenses	**6**	38
Acquisition of fixed assets	**-**	34
Fees to directors	**16**	15
Salaries and related benefits	**52**	61

Regarding balances with related parties - see Note 15.

* 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 (see Note 3K).

Note 23 - Income Taxes

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

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

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) – 2009, which provided, inter alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: In the 2009 tax year – 26%, in the 2010 tax year – 25%, in the 2011 tax year – 24%, in the 2012 tax year – 23%, in the 2013 tax year – 22%, in the 2014 tax year – 21%, in the 2015 tax year – 20% and as from the 2016 tax year the company tax rate will be 18%.

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.

With respect to Section 3(j) of the Ordinance, the interest rate applicable to in scope taxpayers granting a loan in NIS is 3.3% p.a. (this rate may change according to the overall average cost of unlinked credit granted to the public by the banks).

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.

Note 23 - Income Taxes (cont'd)

B. 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.

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.

C. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company currently qualifies as an "Industrial Company" under the above law. As such, it is entitled to certain tax benefits, mainly the right to deduct share issuance costs for tax purposes in the event of a public offering, and to amortize know-how acquired from third parties.

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

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.

Note 23 - Income Taxes (cont'd)

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

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

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

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

b. Other Area: Exemption from corporate tax for two years and a reduced tax rate of 25% for the next five years.

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.

E. Final tax assessments

The Company's final income tax assessments up to and including the 2004 tax year are considered to be final.

F. Income taxes recognized in the income statement

	For the year ended December 31	
	2009	**2008**
	$ thousands	**$ thousands**
Current taxes	**496**	520
Deferred tax expense (see Note 13)	**19**	32
	515	552

Note 23 - Income Taxes (cont'd)

G. Reconciliation of effective tax rate

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

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	
	2009	**2008**
	$ thousands	**$ thousands**
Tax rate	**26%**	27%
Profit before tax	**2,150**	2,050
Income tax using the domestic corporations tax rate	**559**	554
Additional tax in respect of foreign subsidiaries	**(13)**	31
Non-deductible expenses and tax exempt income, net	**(3)**	30
Tax exempt income due to Approve Enterprise status	**(1)**	(1)
Differences in basis of measurement for financial reporting and for tax purposes	**1**	(108)
Others	**(28)**	46
	515	552

Note 24 - Earnings Per Share

Basic earnings per share

The calculation of basic and diluted earnings per share at December 31, 2009 was based on the net profit attributable to ordinary shareholders of $1,635 thousand (2008: $1,498 thousand) and a weighted average number of ordinary shares outstanding of 17,671 thousand (2008: 17,671 thousand) calculated as follows:

Note 24 - Earnings Per Share (cont'd)

Net profit attributable to ordinary shareholders:

	For the year ended December 31	
	2009	**2008**
	$ thousands	**$ thousands**
Profit for the year	**1,635**	1,498
Profit attributable to ordinary shareholders	**1,635**	1,498

Weighted average number of ordinary shares (basic)
In thousands of shares

	December 31	
	2009	**2008**
Issued ordinary shares at January 1	**17,671**	17,671
Weighted average number of ordinary shares at December 31	**17,671**	17,671

Diluted earnings per share

The calculation of diluted earnings per share at December 31, 2009 was based on profit attributable to ordinary shareholders of $1,635 thousand (2008: $1,498 thousand) and a weighted average number of ordinary shares outstanding after adjustment for the effects of all dilutive potential ordinary shares of 17,671 thousand (2008: 17,671 thousand), calculated as follows:

Weighted average number of ordinary shares (diluted)
In thousands of shares

	December 31	
	2009	**2008**
Weighted average number of ordinary shares (basic and diluted)	**17,671**	17,671

Note 25 - Information about Geographical Segments

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.

Note 25 - Information about Geographical Segments (cont'd)

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 interest-bearing loans and corporate assets.

	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)**
Net profit for the year				**1,635**
Segment assets	**1,944**	**1,810**	**2,606**	**6,360**
Unallocated assets				**19,422**
Total assets				**25,782**

	For the year ended December 31, 2008			
	Europe and Israel (mainly Europe)	**America**	**Asia**	**Total**
	$ thousands	**$ thousands**	**$ thousands**	**$ thousands**
Segment revenues	5,332	3,983	5,940	15,255
Segment result	655	488	728	1,871
Net financial result				179
Income taxes				(552)
Net profit for the year				1,498
Segment assets	2,553	1,858	3,095	7,506
Unallocated assets				17,082
Total assets				24,588

Note 26 - Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

1. Allowance for doubtful accounts

The financial statements include specific provisions for doubtful debts, which, in management's opinion, adequately reflect the loss included in those debts whose collection is doubtful. Doubtful debts, which according to management's opinion are unlikely to be collected, are write-off from the Company's books, based on a management resolution. Management's determination of the adequacy of the provision is based on an evaluation of the risk, by considering the available information on the financial position of the debtors, the volume of their business, an evaluation of the security received from them and past experience.
As at December 31, 2009 and 2008 no allowance was recorded. (See also Note 20).

2. Pension benefits

This applies where the Group's accounting policy is to recognize any actuarial gains or losses immediately through the income statement.

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the expected long-term rate of return on the relevant plan's assets and the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of fixed interest Israeli government bonds with duration equal to the duration of the liability.

Other key assumptions for pension obligations are based in part on current market conditions. Additional information is disclosed in Note 16.

3. Deferred tax assets

The Group recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. The Group regularly reviews its deferred tax assets for recoverability, based on historical taxable income, projected future taxable income, the expected timing of the reversals of existing temporary differences and the implementation of tax planning strategies. If the Group is unable to generate sufficient future taxable income in certain tax jurisdictions, or if there is a material change in the actual effective tax rates or time period within which the underlying temporary differences become taxable or deductible, the Group could be required to eliminate a portion of the deferred tax asset resulting in an increase in its effective tax rate and in adverse impact on operating results.