Payton Planar Magnetics Ltd.

Annual Report 2013

Contents

	Page
Board of Directors Report	2
Auditors' Report	15
Consolidated Financial Statements:	
Statements of Financial Position	17
Statements of Comprehensive Income	19
Statements of Changes in Equity	20
Statements of Cash Flows	21
Notes to the Financial Statements	22

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, 2013

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

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

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

A. The Group

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

B. The Group's main fields of activity and changes that occurred in the period from January to December 2013

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

Real-estate property - The establishment of a real-estate property, centralizing the local group activities ("Payton House") was completed on September 2013.
Management believes that having all facilities "under one roof" in the new building will lead to economies of scale and also offer opportunities for synergies between product lines.
The Company moved two out of its three locations into the new facility on May 2013 and on September 2013 the Company completed the last phase of the transfer. To the report date no additional material costs are required for the completion, total investment is about USD 10 million.

Himag Planar Magnetics (U.K.) - on December 28, 2012, further to M.O.U signed on 22.11.12 the Company, via its fully owned UK subsidiary - Himag Planar Magnetics (hereinafter-"Himag"), executed an agreement to purchase the business activity of Himag Solutions Ltd., a UK company, engaged in the transformers global market.

[1] The financial statements as at December 31, 2013 form an integral part thereof.

The purchase relates to the Selling Company's business activity (excluding all types of liabilities and obligations) regarding production, development, marketing and distribution of magnetic elements (transformers), including, among others, fixed assets, goodwill, inventory, agreements and intellectual property rights (hereinafter: "The Purchased Activity"). The consideration for the purchased activity has been set to USD 1.2 million paid on 31.12.12 and additional consideration for the purchased activity, conditional upon achieving a minimum annual sales turnover (as detailed in note 4.B. to the Financial Statements). In order to estimate the fair value of the intangible assets acquired, a Purchase Price Allocation ("PPA") was conducted by Fair Value Ltd., an independent business appraiser, part of EEBC Economic Advisory Group. Starting 1.1.13 Himag started its activity as a part of the Payton Group. The current focus is to increase Himag's efficiency and reach economies of scale in terms of manufacturing, engineering and marketing.

Starting January 1st, 2012, following the purchase agreement approved on November 8, 2011, the business activity of Payton Technologies (1991) Ltd ("Payton Technologies"), a sister-company fully owned by the parent company (Payton Industries), was merged into the Company. All operational assets and liabilities of Payton Technologies as of January 1, 2012 were transferred into the Company for the consideration of the amount of NIS 5.6 million (about € 1.1 million). In order to estimate the fair value of the intangible assets acquired, a PPA was conducted by Fair Value Ltd., an independent business appraiser, part of EEBC Economic Advisory Group.
Based on the PPA the surplus on the investment was allocated to: production files, open orders and goodwill. See also Note 4.A. to the Consolidated Financial Statements as of 31.12.13.

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

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

C. Sales

The Group main customer base is related to the telecom, automotive and power electronic market. Additional markets the Group aims are Industrial, medical and Hi-Reliability ("Hi-Rel") markets. In addition, during 2013, the Company operated to expand its activity in: UK, North America, Japan, and China.
Sales for the year ended December 31, 2013 amounted to USD 20,021 thousand compared with USD 17,601 thousand for the year ended December 31, 2012. The sales in 2013 were affected from the new business activity purchased from Himag.
Revenues for the year ended 2013 consisted of recurring sales to existing customers and sales to new ones.
The Sales were generated primarily from large telecom companies, automotive companies, industrial companies and Hi-Rel applications manufacturers.

D. Principal customers

During years 2013 and 2012 there was no major customer (which makes up in excess of 10% of the Group's sales) included in the consolidated sales revenues.

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

Nowadays market fluctuations are very rapid and unpredictable, therefore 2014 trend is very hard to foresee. The global economy in Europe and in the U.S. is very unstable. Taking into consideration a gradual slowdown in emerging economies too, global growth is expected to be slow.
The challenge in this global economy slow growth environment is to raise productivity, to address and develop new markets and to expand the group's core business.

Along with the above-mentioned global fluctuations, there are additional effects in Israel, generated from large fluctuations in the exchange rates of the main currencies vis-à-vis the NIS.

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

As result of the Company's conservative cash policy, management estimates that the Group is financially strong and no liquidity problems are expected in the foreseeable future.

F. Marketing

During 2013 the Group participated in the following exhibitions:

- March 2013, APEC in California, USA.
- May 2013, New-Tech in Tel-Aviv, Israel.
- May 2013, PCIM in Nuremberg, Germany.
- June 2013, ITEC in Dearborn Michigan, USA.
- September 2013, IEEE/ECCE Denver 2013 show in Denver, USA.
- September 2013, Darnell Power Forum in Dallas, USA.

In addition, during 2013, the Company initiated several seminars and conferences in the USA.

During 2013 the Company put intense focus to UK, China, Japan and North America markets.

The Company strategy, which enables fulfilling the mission of gaining worldwide recognition and market share growth, is:

- Targeting world leaders in their fields. Having these leaders as our customers is convincing other second tier companies to adopt the Planar Technology.
- Focusing on Automotive (EV/HEV), medical and Hi-Rel segments in addition to the Telecom and power electronic markets.
- Use representatives network as sales channels.

- Expanding our activity in China, Japan, and North American markets.
- Deepening activity with existing customers.
- Maintaining the wide presence and global recognition.

G. Manufacturing

The group intends to maintain and also diversify its manufacturing capacity and capabilities, through manufacturing partners in the Far East. This activity objective is to increase flexible production capacity, to enable mass production quantities, lower products costs and increase competitiveness.

H. Competition

In the recent years there has been an increasing interest of conventional transformer manufacturer to get into the Planar field. We can note that there are more and more companies that are trying to design and manufacture the planar components. However, the Company believes in its technology advantage and capabilities and estimates it could generally benefit from an increasing competition in the market due to greater exposure of the technology.
The Company cannot estimate its future market share. The following companies are considered as its potential competitors: Pulse and Coilcraft - from the U.S.A. and Premo - from Spain.

I. Order and Purchase Backlog

As at December 31, 2013 this backlog amounted to USD 9,408 thousand, and as of March 20, 2014, to USD 9,919 thousand (December 31, 2012 - USD 6,217 thousand). The backlog is composed of the company and its two fully owned subsidiaries firm orders.
Management estimates that most of the backlog as of 31.12.13 will be supplied until the end of September 2014.
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 2013, the Group employed 184 people. (It is noted that as of 31.12.12 there were no employees engaged by Himag, the UK subsidiary since all its employees employment contracts were signed during January 2013). The Company retains employment contracts with most of its key employees and is of the opinion that relations with its employees are satisfactory.

K. Quality Control

Payton Group has the ISO9001:2000 certification for its quality system. It has UL recognition for the use of several Electrical Insulation Systems classes B, F and H in its products, also has recognition of the construction of a family of magnetic components as complying with the requirements of UL and IEC 60950 standards of safety. Payton is authorized by an accredited testing agency to apply the CE mark to many of its commercial transformers.

Payton also meets recognized international safety standards and conforms to MIL.T, CSA VDE and other standards.

The Company is certified with ISO14001:2004 (Environmental standard). Payton is a Lead Free company as required by the 2002/95/EC RoHS directive.

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

L. Objective and Business Strategy

Since its incorporation, Payton has provided innovative and affordable Planar Magnetic solutions to the Power Electronic Industry.

By doing so, it has become the undisputable worldwide market leader in the Planar Magnetics Technology, with a blue-chip customer base of leading technology-driven OEM's.

Over the next years, Payton plans to maintain its lead and continue to facilitate the transition of the Magnetics market to the Planar Technology by:

1. Maintaining business efficiency and operational efficiency and constant search for cost saving solutions.
2. Maintaining and strengthening its current blue-chip customer base. This will enable Payton to build a track record as a reliable high-volume Planar component supplier to leading OEM's.
3. Selectively developing additional key strategic customers, especially in China, Japan, North America and UK in order to further propagate Payton Planar unique technology.
4. Aiming and focusing on new high growth segments such as Automotive (EV/HEV) in addition to the present Telecom market, Hi-Rel, Avionics, Space and medical applications.
5. Continuing to educate the Power Electronics industry about Planar technology.
6. Continuing to develop its mass production expertise and capacities to a level that will enable Payton to address the large price-sensitive segments and mass production quantities segments of the global Magnetics market.
7. Payton is constantly looking for business opportunities to extend its core business with synergetic product lines. Purchasing the business activity of Payton Technologies (effective 1.1.2012), and the Purchase of the business activity of Himag Solutions (effective 31.12.2012) are classic examples of a mean towards achieving this goal.

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

M. Coming year outlook

In the coming year (2014) Payton plan to continue the integration and improving the efficiency of Himag business activity in UK in order to maximize its added value to the Group.

Furthermore, during 2014 the Group plans to continue its regular course of business and maximize the business challenge to the greatest possible extent. It will go on with its marketing efforts aiming to expand products exposure and enlarging market share.

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

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

N. Risk Factors

	Major Impact	**Medium Impact**	**Small Impact**
Macro Risks	▪ Global slowdown in general, and in the electronics, automotive and telecommunications sectors in particular, affects the Group's customer's demands and can cause orders and sales decrease.	▪ Chinese currency Evaluation against the USD increases cost of goods sold. In addition, the increase of the minimum wages in China may increase the labor costs. ▪ Evaluation of the local Israeli currency reflects an increase in labor costs and other operating costs.	▪ Currency exposure during credit term period with regards to invoices issued in local currency. ▪ Currency exposure with regards to the Industrial real-estate construction project, relates to construction and services costs in NIS verses equity and receivables in USD. This exposure was relevant only for the construction period which ended by the end of year 2013.
Market Risks		▪ Metals prices fluctuations especially: Copper, Steel, Tin and Silver, which are part of the transformers bill of materials.	
Specific Risks		▪ Manufacturing partners dependency.	

O. Current Shareholders position

Shareholder name	Number of shares	Percentage of the outstanding shares	Comments
Payton Industries Ltd.	11,694,381	66.2%	Israeli company traded in the Tel Aviv stock exchange.
Public	5,976,394	33.8%	Listed on the EuroNext since June 1998.
Total	17,670,775	100.0%	Total outstanding shares.

2. Financial position

A. Statement of Financial Position as at December 31, 2013

Cash and cash equivalents, Marketable securities held for trading and Short-term Deposits - these items amounted to a total of USD 12,996 thousand as at December 31, 2013 compared to USD 19,703 thousand as at December 31, 2012. During year 2013 these items decreased mostly due to the use of cash for investments in the real-estate property and due to deposit of USD 3 million in Long term bank deposit presented under the non-current assets.

Trade accounts receivable - these amounted to USD 4,030 thousand as at December 31, 2013 compared to USD 3,519 thousand as at December 31, 2012. The increase in this item is explained mostly by sales volume increase in the period near the report date.

Long term deposits - these amounted to USD 3,002 thousand as at December 31, 2013 representing a 15 to 18 months bank time deposits.

Fixed assets - these amounted to USD 12,583 thousand as at December 31, 2013, compared to USD 8,110 thousand as at December 31, 2012. The increase in this item resulted mainly from investing in the industrial real-estate property in Israel (See paragraph 1.B above).

Intangible assets - these amounted to USD 1,134 thousand as at December 31, 2013 compared to USD 1,279 thousand as at December 31, 2012.

- An amount of USD 286 thousand (year ended December 31, 2012: USD 374 thousand) arises from the surplus on the investment in Payton Technologies business activity. The fair value of the intangible assets in this acquisition was valuated in a Purchase Price Allocation ("PPA") that was conducted by an independent business appraiser. The surplus on the investment was allocated to: production files, open orders and goodwill.
- An amount of USD 848 thousand (year ended December 31, 2012: USD 905 thousand) arises from the intangible assets recognized as a result of the acquisition of the business activity of Himag Solutions, including: goodwill, production files and brand name rights. The fair value of these intangible assets have been determined based on a Purchase Price Allocation (“PPA”) prepared by an external independent appraiser.

Trade payables - amounted to USD 2,351 thousand as at December 31, 2013 compared to USD 1,435 thousand as at December 31, 2012. The increase in this item results mainly from increase in liability to sub-contractors manufacturers, explained by the increase in business activity near the report date; and from increase in liability to construction contractors of the real-estate property stemming from a provision for their final payment.

Liabilities to bank and others (Current & Non-current Liabilities) - amounted to a total of USD 3,564 thousand as at December 31, 2013 compared to USD 3,650 thousand as at December 31, 2012. As at December 31, 2013 these liabilities comprised of a 10 year bank loan in the amount of USD 3,126 thousand (out of which USD 360 thousand are presented as current liabilities) against a mortgage on the real estate property, repayable in monthly payments starting November 2012. The bank loan was taken in order to finance part of the industrial property construction costs. Additional USD 438 thousand (out of which USD 143 thousand are presented as current liabilities) represents the contingent consideration against the purchase of Himag Solutions Ltd.

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

Interest rate exposure

The Group's interest rate exposure relates mainly to its balance of cash equivalents and short-term and long-term bank deposits. These balances are mostly held in USD bearing interest rates given by banks (interest rate - about 1%), which changes from time to time.

Data on linkage terms

The financial statements of the Company reflect the functional currency of the Company, which is the USD.
Most of the Group's sales in the reported periods were in USD or were linked to the USD. Approximately 14% of the Group's sales were in Euro.

Approximately 96% of the costs of raw material and finished goods purchased by the Group during the reported period were in USD or were linked to the USD.

Approximately 80% of the Group's salaries during the reported year ended December 31, 2013 were in New Israeli Shekel ("NIS"), 20% were in USD and GBP.

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, the GBP and to the local New Israeli Shekel ("NIS") with regards to labor costs, other operating costs and cost of raw materials (see also Data on linkage terms, above).

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

During 2013, the Company conducted the construction process of the industrial real-estate property. All engagement with construction contractors are fixed in the local NIS. Therefore, for the period of the construction process, suiting the industrial property to Payton's needs, fluctuation of the U.S. Dollar with relation to the NIS influence the accumulated value of building (fixed assets).

The Company is subcontracting Chinese ventures. Devaluation of the U.S. Dollar with relation to the Chinese currency has an influence on the Group's cost of goods sold.

Market risks

During 2013 the Company used derivatives, from time to time, as a tool for hedging, especially in order to hedge labor costs and construction costs paid in NIS. With regards to all other operating costs, there is no need to use derivatives, since hedging is being kept inherently as part of the operational activity.

C. Operating results

Summary of Consolidated quarterly Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Total 2013	**Total 2012**	**Quarter 10-12/13**	**Quarter 7-9/13**	**Quarter 4-6/13**	**Quarter 1-3/13**
Sales revenues	20,021	17,601	5,301	5,608	4,926	4,186
Cost of sales	13,856	*11,234	3,762	3,715	3,446	2,933
Gross profit	*6,165*	*6,353*	*1,539*	*1,893*	*1,480*	*1,253*
Development costs	(913)	*(846)	(217)	(222)	(228)	(246)
Selling & marketing expenses	(1,932)	*(1,728)	(438)	(478)	(484)	(532)
General & administrative expenses	(2,804)	*(2,345)	(743)	(700)	(682)	(679)
Other (expenses) income	(475)	(5)	(253)	(77)	(147)	2
Operating income (loss)	*41*	**1,463*	(112)	*416*	*(61)*	*(202)*
Finance income (expenses), net	135	411	33	*34*	*16*	*52*
Profit (loss) before income taxes	*176*	**1,874*	*(79)*	*450*	*(45)*	*(150)*
Income taxes	(63)	568	52	(81)	(12)	(22)
Net profit (loss) for the period	*113*	**2,442*	*(27)*	*369*	*(57)*	*(172)*
Other comprehensive income items that will not be transferred to profit &loss						
Remeasurement of defied benefit plan	(19)	*(59)	(19)	-	-	-
Total other comprehensive loss	(19)	*(59)	(19)	-	-	-
Total comprehensive income for the period	*94*	*2,383*	(46)	*369*	*(57)*	*(172)*

* Retrospective application - see Note 2F(1) to the Financial Statements as of 31.12.13, regarding initial application of amended IAS 19, *Employee Benefits*.

General Note: The Group is exposed to erosion of the USD in relation to the NIS and to the Euro. Most of the Group's salaries and other operating costs are fixed in NIS. Revaluation of the local Israeli currency drives to an increase in labor costs and other operating costs, thus, negatively affects the operating results of the Company. The average rate of the USD with relation to the NIS, during 2013, went down by 6.4% compared to average rate of year 2012, reflecting an increase in the above-mentioned costs when they are presented in USD.

About 14% of the Group's sales in 2013 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 2013 were USD 20,021 thousand compared with USD 17,601 thousand in year 2012. The sales in 2013 were affected mostly from the new business activity purchased from Himag, resulting in sales increased of 14% compared to year 2012.

Gross profit **-** The Group's gross results for the year ended December 31, 2013 were USD 6,165 thousand (31%), compared with USD 6,367 thousand (36%), in the year ended December 31, 2012. The decrease in the gross profit ratio resulted mainly from:

- The sales products mix
- The devaluation of the U.S. Dollar with relation to the local Israeli currency (which increased labor cost and other manufacturing costs)
- The integration of Himag activity that was characterized by lower gross margins.

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, 2013 were USD 913 thousand compared with USD 846 thousand in the year ended December 31, 2012.

Selling & marketing expenses **-** The Group's selling & marketing expenses are mainly comprised of: (1) commissions to the Group's reps' and Marketing Personnel, which are calculated as a portion of sales and of (2) other selling expenses (fixed) based on management policy. The Group's marketing efforts are concentrated through participation in major power electronic shows around the world and by collaborating with its worldwide rep's Network.
The Group's selling & marketing expenses for the year ended December 31, 2013 amounted to USD 1,932 thousand compared with USD 1,728 thousand in the year ended December 31, 2012.

General& Administrative expenses **-** The Group's General & Administrative expenses for the year ended December 31, 2013 amounted to USD 2,804 thousand compared with USD 2,325 thousand in the year ended December 31, 2012. The increase in these expenses relates mainly to the incorporation of Himag Planar Magnetics administrative personnel starting 2013.

Other expenses, net - Other expenses for the year ended December 31, 2013 amounted to USD 475 thousand compared with USD 5 thousand in the year ended December 31, 2012. .
In 2013, an amount of USD 206 thousand out of these expenses arised from the transfer to the new facility, and an amount of USD 222 thousand represents the increase in contingent consideration stemming from the purchase of Himag Solutions business activity.

Finance income, net - The Group's Finance income for the year ended December 31, 2013 amounted to USD 135 thousand compared with USD 411 thousand in the year ended December 31, 2012. The decrease in these income resulted mainly from decrease of interest from bank deposits and decrease of income from marketable securities.

Income Taxes **-** tax expenses for the year ended December 31, 2013 amounted to USD 63 thousand compared with tax income at the amount of USD 568 thousand for the year ended December 31, 2012. In year 2012 income taxes were mostly affected by the write-off of excess tax liability following a final tax assessment concluded.

Information regarding - Transactions with related parties *(pursuant to note 20 G to the Consolidated Financial Statements as at December 31, 2013)*

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Management fees and related benefits to David Yativ, Technologies and Management*	456	477
Financing (income) expenses to the Parent Company	(11)	(4)
Fees to directors	33	33
Short-term employee benefits (2013: 5 personnel, 2012: 6 personnel)	585	670
Post-employment benefits (2013: 5 personnel, 2012: 6 personnel)	120	103
Purchase of fixed assets from the Parent Company	-	50

* Management fees and related benefits to David Yativ, Technologies and Management Ltd. (see Note 17B) include an amount of USD 126 thousand (year ended December 31, 2012: USD 116 thousand) allocated as selling and marketing expenses and an amount of USD 28 (year ended December 31, 2012: USD 26 thousand) thousand allocated as general and administrative expenses.

Information regarding - Balances with related parties *(pursuant to note 8 to the Consolidated Financial Statements as at December 31, 2013)*

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Related parties (included in other accounts receivable)	250	227

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, 2013	December 31, 2012
Current ratio[2]	5.16	8.99
Quick ratio[3]	4.38	7.81

B. Operating activities

Cash flows generated from operating activities for the year ended December 31, 2013 amounted USD 1,603 thousand, compared with the cash flows generated from operating activities of USD 1,493 thousand for the year ended December 31, 2012.

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

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

C. Investing activities

Cash flows used for investing activities in the year ended December 31, 2013 amounted USD 3,140 thousand compared with cash flows used for investing activities of USD 8,266 thousand in the year ended December 31, 2012.

During the year 2013 the Company used most of these cash flows for building its new industrial real-estate property, which were mostly financed by materializing short-term bank deposits; and for investment in long-term bank deposits.

D. Financing activities

Cash flows used for financing activities in the year ended December 31, 2013 amounted USD 323 thousand compared with cash flows generated from financing activities of USD 3,442 thousand in the year ended December 31, 2012. In year 2012 the cash flow originated from a 10 year bank loan in the amount of USD 3.5 million against a mortgage on the real estate property. The loan bears interest of Libor+3.7% and is repayable in monthly payments.

4. Financing sources

The Group financed its activities during the reported periods from its own resources and from a long term bank loan (see also note 12 to the consolidated financial statements).

5. External factors effects

5.1 Revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar leads to an increase/decrease (respectively) in labor costs and other operating costs. Most of the Group's salaries and other operating costs are fixed in NIS, therefore, the operating results of the Company are being affected.

5.2 During 2013, since the Company conducted the construction process of the industrial real-estate property, revaluation/devaluation of the local Israeli currency in relation to the U.S. Dollar lead to an increase/decrease (respectively) in the accumulated value of the building (fixed assets). All engagement with construction contractors are fixed in the local NIS, therefore costs allocated as fixed assets were affected.

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

6. Statement by senior management in accordance with article 12, § 2 (3°) of the Royal Decree per 14.11.2007

Pursuant to article 13 § 2,3 of the Royal Decree of 14 November 2007, David Yativ Chairman of the Board of Directors declares, on behalf of and for the account of Payton Planar Magnetics that, as far as is known to him,

a) The financial statements at December 31, 2013 are drawn up in accordance with IFRS-reporting as adopted by the European Union and present a true and fair view of the equity, financial situation and results of the company

b) The report gives a true and fair view of the main events of the financial year, their impact on the financial statements, the main risk factors and uncertainties, as well as the main transactions with related parties and their possible impact on the financial statements.

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

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

Ness-Ziona, March 30, 2014.

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

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Payton Planar Magnetics Ltd. ("the Company"), which comprise the consolidated statement of financial position as at December 31, 2013, the consolidated statements of comprehensive income, changes in equity cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to frauds or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Somekh Chaikin, an Israeli partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Company as at December 31, 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

March 30, 2014

Consolidated Statements of Financial Position as at December 31

	Note	2013 $ thousands	2012 $ thousands
Current assets			
Cash and cash equivalents	5	**5,883**	7,684
Short-term deposits	6	**6,133**	10,837
Marketable securities held for trading	7	**980**	1,182
Trade accounts receivable	8	**4,030**	3,519
Other accounts receivable	8	**447**	469
Current tax assets		**500**	180
Inventory	9	**3,218**	3,629
Total current assets		**21,191**	27,500
Non-current assets			
Long-term deposits	6	**3,002**	-
Fixed assets	10	**12,583**	8,110
Intangible assets	11	**1,134**	1,279
Deferred taxes	21	**160**	125
Total non-current assets		**16,879**	9,514
Total assets		**38,070**	37,014

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

March 30, 2014

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

	Note	2013 $ thousands	2012 $ thousands
Liabilities and equity			
Current liabilities			
Liabilities to bank and others	12	**503**	408
Trade payables	13	**2,351**	1,435
Other payables	14	**903**	879
Employee benefits	15	**348**	336
Total current liabilities		**4,105**	3,058
Non-current liabilities			
Liabilities to bank and others	12	**3,061**	3,242
Employee benefits	15	**495**	399
Total non-current liabilities		**3,556**	3,641
Equity			
Share capital	19	**4,836**	4,836
Share premium		**8,993**	8,993
Retained earnings		**16,580**	16,486
Total equity		**30,409**	30,315
Total liabilities and equity		**38,070**	37,014

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

Consolidated Statements of Comprehensive Income for the year ended December 31

	Note	2013 $ thousands	2012 $ thousands
Revenues	20A	**20,021**	17,601
Cost of sales	20B	**(13,856)**	*(11,234)
Gross profit		**6,165**	* 6,367
Development costs		**(913)**	*(846)
Selling and marketing expenses	20C	**(1,932)**	*(1,728)
General and administrative expenses	20D	**(2,804)**	*(2,325)
Other expenses	20E	**(475)**	(5)
Operating profit		**41**	* 1,463
Finance income	20F	**261**	581
Finance expenses	20F	**(126)**	(170)
Finance income, net		**135**	411
Profit before income taxes		**176**	* 1,874
Income taxes	21	**(63)**	568
Profit for the year		**113**	* 2,442
Other comprehensive income items that will not be transferred to profit and loss			
Remeasurement of defined benefit plan	15	**(19)**	*(59)
Total other comprehensive loss		**(19)**	*(59)
Total comprehensive income for the year		**94**	2,383
Basic earnings per ordinary share (in $)	22	**0.01**	* 0.14

* Retrospective application - see Note 2F(1) regarding initial application of amended IAS 19, *Employee Benefits*.

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

Consolidated Statement of Changes in Equity for the year ended December 31

	Share capital		Share premium	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands
Balance at January 1, 2012	17,670,775	4,836	8,993	14,103	27,932
Total comprehensive income for the year					
Profit for the year	-	-	-	* 2,442	* 2,442
Other comprehensive loss	-	-	-	*(59)	*(59)
Total comprehensive income for the year	-	-	-	2,383	2,383
Balance at December 31, 2012	17,670,775	4,836	8,993	16,486	30,315
Total comprehensive income for the year					
Profit for the year	**-**	**-**	**-**	**113**	**113**
Other comprehensive loss	**-**	**-**	**-**	**(19)**	**(19)**
Total comprehensive income for the year	**-**	**-**	**-**	**94**	**94**
Balance at December 31, 2013	**17,670,775**	**4,836**	**8,993**	**16,580**	**30,409**

* Retrospective application - see Note 2F(1) regarding initial application of amended IAS 19, *Employee Benefits*.

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

Consolidated Statements of Cash Flows for the year ended December 31

	Note	2013 $ thousands	2012 $ thousands
Operating activities			
Profit for the year		**113**	* 2,442
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation and amortization	10, 11	**846**	596
Income taxes	21	**63**	(568)
Capital loss on sale of fixed assets	20E	**47**	5
Increase in employee benefits	15	**89**	* 116
Increase in trade accounts receivable	8	**(511)**	(19)
Decrease (increase) in other accounts receivable	8	**22**	(52)
Decrease (increase) in inventory	9	**411**	(269)
Increase in trade payables	13	**725**	160
Increase in other payables	14	**24**	67
Interest received	20F	**124**	234
Interest paid	20F	**(83)**	(138)
Tax paid	21	**(394)**	(779)
Changes in the fair value of contingent consideration	20E	**222**	-
Finance income, net	20F	**(95)**	(302)
Cash flows generated from operating activities		**1,603**	1,493
Investing activities			
Proceeds from sale of marketable securities held for trading	7	**205**	200
Proceeds from (investment in) short-term deposits, net	6	**4,693**	(3,766)
Investment in long-term deposits	6	**(3,000)**	-
Investment in fixed assets	10	**(5,048)**	(2,100)
Proceeds from sale of fixed assets	10	**10**	37
Acquisition of business activity from related party	4	**-**	(1,437)
Acquisition of business activity	4	**-**	(1,200)
Cash flows used for investing activities		**(3,140)**	(8,266)
Financing activities			
Loan received from bank	12	**-**	3,500
Repayment of loan	12	**(323)**	(58)
Cash flows (used for) generated from financing activities		**(323)**	3,442
Net decrease in cash and cash equivalents		**(1,860)**	(3,331)
Cash and cash equivalents at beginning of the year		**7,684**	10,964
Effect of exchange rate fluctuations on cash held		**59**	51
Cash and cash equivalents at end of the year		**5,883**	7,684

* Retrospective application - see Note 2F(1) regarding initial application of amended IAS 19, *Employee Benefits*.

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

Note 1 - General

A. Reporting entity

Payton Planar Magnetics Ltd. (“the Company”) was incorporated in December 1992.

In May 2013 the Company moved to its new premises located at 3 Ha’avoda Street, Ness-Ziona.

The Company is a subsidiary of Payton Industries Ltd. (the “Parent Company”) and its ultimate controlling shareholder is Mr. David Yativ. In June 1998, the Company completed its initial public offering in the Euro NM.

The consolidated financial statements of the Group as at and for the year ended December 31, 2013 comprise the Company and its subsidiaries (together referred to as the “Group”).

The Group mainly develops, manufactures and markets planar and conventional transformers and operates abroad through its subsidiaries and distributors.

On January 1, 2012, the Group acquired the full business activity of Payton Technologies (1991) Ltd.
In addition, on December 31, 2012, the Group acquired the business activity of Himag Solutions Ltd., via Himag Planar Magnetics Ltd., a fully owned subsidiary, incorporated during December 2012.
See also Note 4 regarding the acquisition of business activities.

B. Definitions

In these financial statements –

1. **The Company** – Payton Planar Magnetics Ltd.

2. **The Group** – The Company and its subsidiaries.

3. **Payton Industries Ltd.** – Parent company, traded in the Tel Aviv Stock Exchange.

4. **Subsidiaries** – Companies, the financial statements of which are fully consolidated, directly or indirectly, with the financial statements of the Company.

5. **Related party** – Within its meaning in IAS 24 (2009), “Related Party Disclosures”.

6. **Israeli CPI** – The Consumer Price Index as published by the Central Bureau of Statistics in Israel.

7. **NIS** – The Israeli currency – New Israeli Shekel.

8. **$ -** U.S. Dollar.

Note 2 - Basis of Preparation

A. Statement of compliance

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

The consolidated financial statements were authorized for issue by the Company’s Board of Directors on March 30, 2014.

B. Functional and presentation currency

These consolidated financial statements are presented in U.S. dollars, which is the Company’s functional currency, and have been rounded to the nearest thousand. The U.S. dollar is the currency that represents the principal economic environment in which the Company operates.

C. Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following assets and liabilities:

* Financial instruments, including derivatives, measured at fair value through profit or loss;
* Inventory measured at the lower of cost and net realizable value;
* Deferred tax assets and liabilities;
* Employee benefit assets and liabilities

For further information regarding the measurement of these assets and liabilities see Note 3 regarding significant accounting policies.

D. Operating cycle

The operating cycle of the Group is one year. Thus, current assets and current liabilities include items the realization of which is intended and anticipated to take place within one year.

E. Use of estimates and judgments

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

The preparation of accounting estimates used in the preparation of the Group’s financial statements requires management of the Company to make assumptions regarding circumstances and events that involve considerable uncertainty. Management of the Company prepares the estimates on the basis of past experience, various facts, external circumstances, and reasonable assumptions according to the pertinent circumstances of each estimate.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Note 2 - Basis of Preparation (cont'd)

E. Use of estimates and judgments (cont'd)

Determination of fair value
Preparation of the financial statements requires the Group to determine the fair value of certain assets and liabilities. Further information about the assumptions that were used to determine fair value is included in the following notes:

- Note 11, on intangible assets;
- Note 18, on financial instruments; and
- Note 4, with respect to the fair value of assets and liabilities acquired in a business combination.

When determining the fair value of an asset or liability, the Group uses observable market data as much as possible. There are three levels of fair value measurements in the fair value hierarchy that are based on the data used in the measurement, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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).

F. Changes in accounting policies

As from January 1, 2013 the Group applies the new standards and amendments described below:

(1) IAS 19, *Employee Benefits* (2011)

IAS 19 (2011) introduces a number of changes to the accounting treatment of employee benefits, including the recognition of all actuarial gains and losses immediately through other comprehensive income directly to retained earnings. Furthermore, the interest that is recognized in profit or loss will be calculated on the balance of the net defined benefit liability (asset), according to the discount rate that is used to measure the liability. In addition, employee benefits will be classified as short or long term depending on when the Group expects the benefits to be wholly settled.

Following application of IAS 19 (2011) the Group immediately recognized the gains/losses from remeasurement of a defined benefit program directly to retained earnings instead of to profit or loss. Consequently, comparative figures have been restated as follows:

Note 2 - Basis of Preparation (cont'd)

F. Changes in accounting policies (cont'd)

(1) IAS 19, *Employee Benefits* (2011) (cont'd)

Effect on the statement of comprehensive income:

	For the year ended December 31, 2012		
	As presented in the past	**Effect of retrospective application of IAS 19**	**As presented in these financial statements**
	$ thousands	**$ thousands**	**$ thousands**
Cost of sales	(11,248)	14	(11,234)
Gross profit	6,353	14	6,367
Development costs	(859)	13	(846)
Selling and marketing expenses	(1,740)	12	(1,728)
General and administrative expenses	(2,345)	20	(2,325)
Operating income	1,404	59	1,463
Profit before income taxes	1,815	59	1,874
Profit for the year	2,383	59	2,442
Other comprehensive income items that will not be transferred to profit or loss			
Remeasurement of defined benefit plan	-	(59)	(59)
Basic earnings per ordinary share (in $)	0.13	0.01	0.14

(2) IFRS 10, *Consolidated Financial Statements* (hereinafter - "IFRS 10")

IFRS 10 introduces a new single control model for determining whether an investee companies should be consolidated, which is to be implemented with respect to all investees.
De facto power is to be considered when assessing control, which means that the existence of effective control of an investee requires consolidation.
When assessing the existence of control, all substantive potential voting rights will be taken into account, and not only potential voting rights that are currently exercisable.
IFRS 10 is applicable retrospectively (other than certain relief). The application of IFRS 10 did not have a material effect on the financial statements.

(3) IFRS 13, *Fair Value Measurement* (hereinafter - "IFRS 13")

According to IFRS 13, when measuring the fair value of liability the effect of the entity's own credit risk must be taken into account.
IFRS 13 is applicable on a prospective basis where the disclosure requirements need not be applied in comparative information for periods before initial application.
Application of the standard did not have a material effect on the financial statements.

Note 2 - Basis of Preparation (cont'd)

F. Changes in accounting policies (cont'd)

(4) Amendment to IAS 36, *Impairment of Assets*: Recoverable Amount Disclosures for Non-Financial Assets

The amendment to IAS 36 contains new disclosure requirements for situations in which an impairment loss is recognized and the recoverable amount is determined at fair value less costs of disposal. In addition, the amendment to IAS 36 eliminates the requirement to disclose the recoverable amount of significant cash-generating units even if impairment was not recognized in their respect.

The amendment to IAS 36 is generally applicable on a retrospective basis. However, since the Group has chosen to early apply the amendment, no disclosures are required before the initial year of application of IFRS 13. The mandatory effective date of the amendment is for annual periods beginning on or after January 1, 2014.

The Group has early adopted the amendment to IAS 36. The new disclosure requirements were combined in Note 11 on intangible assets.

Note 3 - Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities, except as explained in Note 2F, Basis of Preparation, under the section changes in accounting policies.

A. Basis of consolidation

1. Business combinations

Business combinations, including business combinations under common control are accounted for using the acquisition method.

The acquisition date is the date on which the acquirer obtains control over the acquiree. Control exists when the Group is exposed, or has rights, to variable returns from its involvement with the acquiree and it has the ability to affect those returns through its power over the acquiree. Substantive rights held by the Group and others are taken into account when assessing control.

The Group recognizes goodwill on acquisition according to the fair value of the consideration transferred less the net amount of the identifiable assets acquired and the liabilities assumed. On the acquisition date the acquirer recognizes a contingent liability assumed in a business combination if there is a present obligation resulting from past events and its fair value can be reliably measured.

The consideration transferred includes the fair value of the assets transferred to the previous owners of the acquiree and the liabilities incurred by the acquirer to the previous owners of the acquiree. In addition, the consideration transferred includes the fair value of any contingent consideration. After the acquisition date, the Group recognizes changes in the fair value of contingent consideration classified as a financial liability in profit or loss.

Costs associated with the acquisition that were incurred by the acquirer in the business combination such as legal and valuation consulting fees are expensed in the period the services are received.

Note 3 - Significant Accounting Policies (Cont'd)

A. Basis of consolidation (cont'd)

2. Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

3. Transactions eliminated on consolidation

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

B. Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

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

C. Financial instruments

1. Non-derivative financial assets

Initial recognition of financial assets

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

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.

Note 3 - Significant Accounting Policies (Cont'd)

C. Financial instruments (cont'd)

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

Derecognition of financial assets (cont'd)

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. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

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

Loans and receivables comprise cash and cash equivalents, trade and other receivables.

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

2. Non-derivative financial liabilities

Financial liabilities are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities are derecognized when the obligation of the Group, as specified in the agreement, expires or when it is discharged or cancelled.

Financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method.

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

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

Note 3 - Significant Accounting Policies (Cont'd)

C. Financial instruments (cont'd)

3. Derivative financial instruments

Economic hedges
Hedge accounting is not applied to derivative instruments that economically hedge financial assets and liabilities denominated in foreign currencies. Change in the fair value of such derivatives are recognized in profit or loss under financing income or expenses.

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

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

5. Share capital

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

D. Fixed assets

1. Recognition and measurement

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

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

When major parts of a fixed asset item have different useful lives, they are accounted for as separate items (major components) of fixed assets.

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

Lease of a land from the Israel Lands Administration where the Group assumes substantially all the risks and rewards of ownership is classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Future payments for exercising an option to extend the lease from the Israel Lands Administration are not recognized as part of an asset and corresponding liability since they constitute contingent lease payments that are derived from the fair value of the land on the future dates of renewing the lease agreement.
Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Note 3 - Significant Accounting Policies (Cont'd)

D. Fixed assets (cont'd)

2. Subsequent costs

The cost of replacing part of a fixed asset item and other subsequent expenses are capitalized if it is probable that the future economic benefits associated with them will flow to the Group and their cost can be measured reliably. The carrying amount of the replaced part of a fixed asset item is derecognized. The costs of day-to-day servicing are recognized in profit or loss as incurred.

3. Depreciation

Depreciation is a systematic allocation of the depreciable amount of an asset over its useful life. The depreciable amount is the cost of the asset, less its residual value.

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

Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of fixed asset item, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the assets. Leased assets under finance lease agreements including lands are depreciated over the shorter of the lease term and their useful lives, unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Freehold land is not depreciated.

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

Buildings	7-50 years	(mainly 50 years)
Machinery and equipment	3-7 years	(mainly 7 years)
Motor vehicles	7 years	
Computers	3-7 years	(mainly 3 years)
Office equipment	3-17 years	(mainly 14 years)
Land under finance leasess	70 years	

Leasehold improvements are depreciated over the shorter of the lease period or the useful life of the leasehold improvement.

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

Note 3 - Significant Accounting Policies (Cont'd)

E. Intangible assets

1. Goodwill

Goodwill that arises upon a business acquisition is presented as part of intangible assets.

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

2. Other intangible assets

The intangible assets that were acquired by the Group, which have definite useful lives, are measured at cost less accumulated amortization.

Amortization is a systematic allocation of the amortizable amount of an intangible asset over its useful life. The amortizable amount is the cost of the asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use.

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

- Production files 5 years
- Order and purchase backlog 0.5 years
- Brand name 4 years
- Non-competition agreement 5 years

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

F. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the first-in first-out (FIFO) principle and includes expenditure incurred in acquiring the inventories and the costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

G. Capitalization of borrowing costs

Specific borrowing costs are capitalized to qualifying assets throughout the period required for completion and construction until they are ready for their intended use. Income earned on the temporary investment of specific credit received for investing in a qualifying asset is deducted from the borrowing costs eligible for capitalization.

Note 3 - Significant Accounting Policies (Cont'd)

H. Impairment

1. Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is tested for impairment when objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security.

The Group considers evidence of impairment for receivables at a specific asset level. All individually significant loans and receivables are assessed for specific impairment. An impairment loss is recognized in profit or loss and reflected in a provision for loss against receivables.

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, the reversal is recognized in profit or loss.

2. Non-financial assets

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

Once a year and on the same date, or more frequently if there are indications of impairment, the Group estimates the recoverable amount of each cash generating unit that contains goodwill.

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 recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs of disposal. 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.

Goodwill acquired in a business combination is allocated to groups of cash-generating units, including those existing in the Group before the business combination, that are expected to benefit from the synergies of the combination.

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

Note 3 - Significant Accounting Policies (Cont'd)

H. Impairment (cont'd)

2. Non-financial assets (cont'd)

An impairment loss is recognized if the carrying amount of an asset or cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amounts of the other assets in the cash-generating unit on a pro rata basis.

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

I. Employee benefits

1. Post-employment benefits

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

(a) Defined contribution plans

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

Obligations for contributions to defined contribution pension plans are recognized as an expense in profit or loss in the periods during which related services are rendered by employees. Contributions to a defined contribution plan that are due more than 12 months after the end of the period in which the employees render the service are discounted to their present value.

(b) Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan.

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

Note 3 - Significant Accounting Policies (cont'd)

I. Employee benefits (cont'd)

1. Post-employment benefits (cont'd)

(b) Defined benefit plans (cont'd)

When as part 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.

Remeasurements of the net defined benefit liability (asset) comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). Remeasurements are recognized immediately directly in retained earnings through other comprehensive income.

Net interest costs on a net defined obligation are presented under salaries expenses.

The Group has executive insurance policies that were issued before 2004 according to which the profit in real terms accumulated on the severance pay component will be paid to the employees upon their retirement. In respect of such policies, plan assets include both the balance of the severance pay component and the balance of the profit in real terms (if any) on the severance pay deposits that accumulated until the reporting date, and are presented at fair value.

2. Short term benefits

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

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

In the statement of financial position the employee benefits are classified as short-term benefits or as other long-term benefits according to the time the liability is due to be settled.

The employee benefits are classified, for measurement purposes, as short-term benefits or as other long-term benefits depending on when the Company expects the benefits to be wholly settled.

Note 3 - Significant Accounting Policies (cont'd)

J. Revenue

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

Revenue is recognized when persuasive evidence exists (usually in the form of an executed sales agreement) that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Transfer of risks and rewards occurs when the goods are transferred to the customer or to its forwarder.

K. Development costs

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

L. Transactions with controlling shareholder

Transactions with a controlling shareholder are measured at fair value on the date of the transaction. As the transaction is on the equity level, the Company includes the difference between the fair value and the consideration from the transaction in its equity.

M. Financing income and expenses

Financing 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. Interest income is recognized as it accrues, using the effective interest method. Dividend income is recognized on the date that the Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Changes in the fair value of financial assets at fair value through profit or loss also include income from dividends and interest.

Financing expenses comprise interest expenses on borrowings, changes in the fair value of contingent consideration from a business combination due to the passage of time, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognized on financial assets (other than losses on trade receivables that are presented under general and administrative expenses).

Borrowing costs, which are not capitalized to qualifying assets, are recognized in profit or loss using the effective interest method.

In the statement of cash flows, interest received and dividends received are presented as part of cash flows from operating activities. Interest paid is presented as part of cash flows from operating activities. Financing costs that were capitalized to qualifying assets are presented as part of cash flows from investing activities, together with the investment in fixed assets.

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

Note 3 - Significant Accounting Policies (cont'd)

N. Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss.

Current tax is the expected tax payable (or receivable) on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date. Current taxes also include taxes in respect of prior years.

A provision for uncertain tax positions is recognized when it is more probable than not that the Group will have to use its economic resources to pay the obligation.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of goodwill and differences relating to investments in subsidiaries, to the extent that it is probable that they will not reverse in the foreseeable future and to the extent the Group controls the date of reversal.

The measurement of deferred tax reflects the tax consequences that would follow the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized for unused tax losses, tax benefits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

O. Earnings per share

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

P. Segment reporting

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

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

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

Note 3 - Significant Accounting Policies (cont'd)

Q. New standards and interpretations not yet adopted

IFRS 9 (2010), *Financial Instruments* (hereinafter – "the Standard")
IFRS 9 (2010) replaces the requirements included in IAS 39 regarding the classification and measurement of financial assets and financial liabilities.
In accordance with IFRS 9 (2010), there are two principal categories for measuring financial assets: amortized cost and fair value, with the basis of classification for debt instruments being the entity's business model for managing financial assets and the contractual cash flow characteristics of the financial asset. In addition, investments in equity instruments are measured at fair value with changes in fair value being recognized in profit or loss.

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

The mandatory effective date of IFRS 9 (2010) has not yet been determined. Early application is permitted subject to providing disclosure and at the same time adopting other IFRS amendments as specified in the standard. IFRS 9 (2010) is to be applied retrospectively other than in number of exceptions as indicated in the transitional provisions included in IFRS 9 (2010).

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

Note 4 - Acquisition of Business Activities

A. Acquisition of business activity from related party

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

By merging the business activity of Payton Technologies, which markets and sells conventional transformers, into Payton Planar, the Group becomes a "one stop shop" for transformers of all kinds and is able to answer both planar and conventional magnetic needs. Furthermore, merging the two business activities, combined with their centralization in the new building, will lead to economies of scale and also offer opportunities for synergies between the products. The goodwill recognized as a result of the business combination is mainly attributed to the aforementioned factors.

Note 4 - Acquisition of Business Activities (cont'd)

A. Acquisition of business activity from related party (cont'd)

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

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

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

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

B. Acquisition of business activity

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

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

The consideration for the purchased activity has been set to USD 1.2 million. Additional consideration for the purchased activity, conditional upon achieving a minimum annual sales turnover of at least USD 1.6 million (hereinafter: "The Minimal Turnover") shall be paid as per the following:

1. During 2013-2015 – a fixed annual amount starting from USD 30 thousand should the Minimal Turnover be achieved and up to a sum of USD 70 thousand per year, should the annual sales turnover exceed USD 2 million.

2. During 2013-2016 – an annual amount to be calculated as a percentage of the annual sales turnover starting from 1.5% should the Minimal Turnover be achieved and up to 3.5% should the annual sales turnover exceed USD 2 million.

Note 4 - Acquisition of Business Activities (cont'd)

B. Acquisition of business activity (cont'd)

As a result, as at December 31, 2012 the Group recorded a financial liability for contingent consideration in the amount of USD 200 thousand, based on the fair value of the contingent consideration at the reporting date. Regarding the fair value of the contingent consideration as at December 31, 2013 – see Note 18E on financial instruments.

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

	$ thousands
Inventories	330
Intangible assets (1)	905
Fixed assets	165
Net assets	1,400

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

	Estimated useful Life	$ thousands
Production files	5 years	96
Order and purchase backlog	0.5 years	18
Brand name	4 years	71
Non-competition agreement	5 years	11
Goodwill		709
		905

Note 5 - Cash and Cash Equivalents

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Bank balances	**4,918**	1,957
Call deposits	**965**	5,727
	5,883	7,684

The Group's exposure to interest rate and currency risks concerning cash and cash equivalent is disclosed in Note 18 on financial instruments.

Note 6 - Deposits

Short term deposits

Short term deposits in dollars, bearing interest at an annual rate of approximately 0.7% - 1% (December 31, 2012: 0.45% - 1.6%).

Long term deposits

Long term deposits in dollars bearing interest at an annual rate of 1.15%-1.18%.

The Group's exposure to interest rate and currency risks concerning deposits is disclosed in Note 18 on financial instruments.

Note 7 - Marketable Securities Held for Trading

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Mutual funds	**449**	435
Bonds	**254**	363
Preferred stocks 6.6% - 10.5%	**277**	384
	980	1,182

The Group's exposure to interest rate and currency risks and a sensitivity analysis for financial assets are disclosed in Note 18 on financial instruments.

Note 8 - Trade and Other Accounts Receivable

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Trade accounts receivable		
Open accounts	**4,011**	3,485
Checks payables	**23**	38
	4,034	3,523
Less provision for doubtful debts	**(4)**	(4)
	4,030	3,519
Other accounts receivable		
Government institutions	**1**	80
Derivative instruments	**-**	91
Related parties	**250**	227
Other receivables	**196**	71
	447	469

The Group's exposure to credit and currency risks concerning trade and other accounts receivable is disclosed in Note 18 on financial instruments.

Note 9 - Inventory

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Raw and packing material	**2,302**	2,273
Work-in-process	**230**	318
Finished products	**686**	1,038
	3,218	3,629

Note 10 - Fixed Assets

	Machinery and equipment	Motor vehicles	Computers and Office equipment	Leasehold improvements	Land and Buildings	Total
	$ thousands					
December 31, 2013						
Cost						
Balance as of January 1, 2013	**3,152**	**325**	**917**	**420**	**6,901**	**11,715**
Acquisitions	**348**	**25**	**532**	**13**	**4,313**	**5,231**
Disposals	**(1,360)**	**(19)**	**(594)**	**(323)**	**-**	**(2,296)**
Balance as of December 31, 2013	**2,140**	**331**	**855**	**110**	**11,214**	**14,650**
Accumulated depreciation						
Balance as of January 1, 2013	**2,240**	**84**	**750**	**387**	**144**	**3,605**
Depreciation for the year	**258**	**50**	**119**	**8**	**266**	**701**
Disposals	**(1,335)**	**(11)**	**(570)**	**(323)**	**-**	**(2,239)**
Balance as of December 31, 2013	**1,163**	**123**	**299**	**72**	**410**	**2,067**
Carrying amounts as of December 31, 2013	**977**	**208**	**556**	**38**	**10,804**	**12,583**

Note 10 - Fixed Assets (cont'd)

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

A. Real Estate Property

In 2011 the Company purchased a real-estate property. The property land is 4,500 square meters and located in the central area of Israel.

During 2013 the establishment of the real-estate property, centralizing the Company's activities, was completed and in May 2013 the Company moved to its new premises.

In October 2012, the Company took a bank loan against a mortgage on the real estate property (see Notes 12 and 17D).

Until the completion of the construction the investment in the real estate property, including capitalized borrowing costs in the amount of USD 75 thousand (December 31, 2012: USD 28 thousand), amounted to USD 10,297 thousand.

Note 10 - Fixed Assets (cont'd)

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

The property land which has a carrying amount of USD 1,389 thousand as at December 31, 2013 (December 31, 2012: USD 1,409 thousand) is leased from the Israel Lands Administration under a capitalized lease ending on June 30, 2032. The Company has the right to extend the lease period by another 49 years under certain circumstances.

C. Acquisition of fixed assets on credit

During the year ended December 31, 2013, the Company acquired fixed assets on credit in the amount of USD 210 thousand (December 31, 2012: USD 19 thousand).

D. Additional information

The Group has assets that have been fully depreciated and are still in use. As at December 31, 2013 the original cost of such assets is USD 494 thousand (December 31, 2012: USD 2,537 thousand).

In 2013 the Group derecognized fixed assets in the amount of USD 2,116 thousand that have been fully depreciated and are no longer used by the Group.

Note 11 - Intangible Assets

	Production files	Order and Purchase backlog	Brand name	Non-competition agreement	Goodwill	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost						
Balance as at January 1, 2013 and December 31, 2013	**536**	**135**	**71**	**11**	**731**	**1,484**
Amortization						
Balance as at January 1, 2013	**88**	**117**	**-**	**-**	**-**	**205**
Amortization for the year	**107**	**18**	**18**	**2**	**-**	**145**
Balance as at December 31, 2013	**195**	**135**	**18**	**2**	**-**	**350**
Carrying amounts						
January 1, 2013	**448**	**18**	**71**	**11**	**731**	**1,279**
December 31, 2013	**341**	**-**	**53**	**9**	**731**	**1,134**

Note 11 - Intangible Assets (cont'd)

	Production files	Order and Purchase backlog	Brand name	Non-competition agreement	Goodwill	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Cost						
Balance as at January 1, 2012	-	-	-	-	-	-
Acquisition	536	135	71	11	731	1,484
Balance as at December 31, 2012	536	135	71	11	731	1,484
Amortization						
Balance as at January 1, 2012	-	-	-	-	-	-
Amortization for the year	88	117	-	-	-	205
Balance as at December 31, 2012	88	117	-	-	-	205
Carrying amounts						
January 1, 2012	-	-	-	-	-	-
December 31, 2012	448	18	71	11	731	1,279

A. Impairment testing for cash-generating units containing goodwill

Goodwill is allocated to the following cash-generating units:

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Payton Technologies (1991) Ltd.	**22**	22
Himag Planar Solutions Ltd. (1)	**709**	709
	731	731

(1) The recoverable amount of Himag Planar Solutions Ltd. (hereinafter – "HPM") cash-generating unit was based on its value in use and was determined by discounting the future cash flows to be generated from HPM. The recoverable amount of HPM exceeds its carrying amount, thus no impairment loss was recognized.

Note 11 - Intangible Assets (cont'd)

B. Key assumptions used in calculation of recoverable amount

(1) Discount rate

The discount rate used for calculating HPM recoverable amount is 15%. HPM discount rate is based on the risk-free rate for 10-year debentures issued by USA government, and adjusted for a risk premium to reflect both the increased risk of investing in equities and the systematic risk of HPM.

(2) Terminal value growth rate

The terminal value growth rate of HPM is 2%.

Note 12 - Liabilities to Bank and Others

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Current liabilities		
Current portion of liabilities to bank (1)	**360**	358
Contingent consideration (2)	**143**	50
	503	408
Non-current liabilities		
Liabilities to bank (1)	**2,766**	3,092
Contingent consideration (2)	**295**	150
	3,061	3,242
	3,564	3,650

(1) In October 2012, the Company took a 10 year bank loan in the amount of USD 3.5 million against a mortgage on the real estate property (See Note 17D).
The loan bears interest of Libor+3.7% and is repayable in monthly payments starting November 2012.

(2) See Note 4B.

The Group's exposure to interest rate, currency and liquidity risks and maturities concerning liabilities to bank and others is disclosed in Note 18 on the financial instruments.

Note 13 - Trade Payables

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Open accounts	**2,333**	1,428
Checks payables	**18**	7
	2,351	1,435

The Group's exposure to currency and liquidity risks concerning trade payables is disclosed in Note 18 on financial instruments.

Note 14 - Other Payables

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Employees and related benefits	**568**	479
Government institutions	**48**	-
Other payables and accrued expenses	**287**	400
	903	879

The Group's exposure to currency and liquidity risks concerning other payables is disclosed in Note 18 on financial instruments.

Note 15 - Employee Benefits

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

Composition of employee benefits:

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Presented under current employee benefits:		
Short-term employee benefits	**348**	336
Presented under non-current employee benefits:		
Net liability for defined benefit plan	**495**	399
Total employee benefits	**843**	735

A. Employees transferred

According to the Purchase Agreement of the business activity of Payton Technologies (see Note 4A), all key executive officers, employed by the parent company are employed directly by the Company (with no significant changes in the costs allocated to the Company) starting January 1, 2012. In addition and as part of those organizational changes, effective November 1, 2011, Mr. Doron Yativ, who used to be employed by the Parent Company, is employed directly by the Company as C.E.O.

Note 15 - Employee Benefits (cont'd)

B. Post-employment benefit plans - defined benefit plan

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

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Present value of defined benefit obligation	**1,543**	* 1,280
Fair value of plan assets	**(1,048)**	*(881)
Recognized liability for defined benefit obligations	**495**	399

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

	2013	2012
	$ thousands	$ thousands
Defined benefit obligations as at January 1	**1,280**	* 811
Benefits paid	**(1)**	(8)
Current service costs	**101**	78
Interest costs	**51**	48
Changes in respect of foreign exchange differences	**85**	20
Remeasurement of defined benefit plan	**27**	143
Business combination	**-**	86
Employees transferred (see A above)	**-**	102
Defined benefit obligation as at December 31	**1,543**	* 1,280

* Retrospective application of amended IAS 19 – see Note 2F(1)

2. Movements in plan assets

	2013	2012
	$ thousands	$ thousands
Fair value of plan assets as at January 1	**881**	* 537
Contributions by employer	**79**	66
Interest income	**25**	22
Changes in respect of foreign exchange differences	**55**	12
Remeasurement of defined benefit plan	**8**	84
Business combination	**-**	72
Employees transferred (see A above)	**-**	88
Fair value of plan assets as at December 31	**1,048**	* 881

* Retrospective application of amended IAS 19 – see Note 2F(1)

Note 15 - Employee Benefits (cont'd)

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

3. Expenses recognized in profit or loss

	For the year ended December 31	
	2013	**2012**
	$ thousands	**$ thousands**
Current service costs	**101**	78
Interest costs	**51**	48
Interest income	**(25)**	(22)
Net change in respect of foreign exchange differences	**30**	8
Employees transferred (see A above)	**-**	14
	157	126

4. Recognized in other comprehensive income

	For the year ended December 31	
	2013	**2012**
	$ thousands	**$ thousands**
Defined benefit obligation:		
Actuarial losses from changes in financial assumptions	**18**	108
Actual return less interest income	**6**	14
Other actuarial losses	**3**	21
	27	143
Plan assets:		
Actual return less interest income	**7**	24
Other actuarial losses	**1**	60
	8	84
Net actuarial losses in the year	**19**	59

5. Actual return

	For the year ended December 31	
	2013	**2012**
	%	%
Actual return on plan assets	**4.56**	7.78

Note 15 - Employee Benefits (cont'd)

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

6. Actuarial assumptions and Sensitivity analyses

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

i. Starting 2012 the mortality and disability rates were based on circular letter 2012-3-4 revising the mortality and disability rates based on recent experience in the local market as slightly as better estimates.

ii. The leave rates were determined based on an analysis of the actual experience of the Company.

- The following leave rates were used for employees who leave with entitlement to benefits:

Years of service	Rate
0	0.0%
1 - 9	2.5%
10 +	1.0%

- The following leave rates were used for employees who leave without entitlement to benefits:

Years of service	Rate
0	5.0%
1 - 9	2.5%
10 +	1.0%

It is assumed that the Company is going to release the individual assets of an employee in any type of leave.

b. In view of the small size of the Company these assumptions are reasonable. With the progress of time and the consequent accumulation of experience, these assumptions are periodically reviewed. Over the last few years the assumptions did not create excessive actuarial deviation.

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

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

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

Valuation Date	Discount Rate
December 31, 2013	**1.57%**
December 31, 2012	1.67%

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

Note 15 - Employee Benefits (cont'd)

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

6. Actuarial assumptions and Sensitivity analyses (cont'd)

e. Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	December 31, 2013	
	1% increase	1% decrease
	$ thousands	$ thousands
Future salary growth	**206**	**(155)**
Discount rate	**(155)**	**204**

7. Effect of the plan on the Group's future cash flows

The Group expects USD 185 thousand in contributions to be paid to the funded defined benefit plan in 2014.

C. Post-employment benefit plans – defined contribution plan

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Amount recognized as expense in respect of defined contribution plan	**344**	330

D. Short-term employee benefits

	December 31 2013	December 31 2012
	$ thousands	$ thousands
Provision for vacation and recreation	**345**	306
Liabilities for bonus	**3**	30
	348	336

Note 16 - Investments in Subsidiary Companies

Details of the subsidiaries, their activities and the Company's interest therein as at December 31, 2013:

A. Payton Planar Holdings (1996) Ltd. (hereinafter "Payton Holdings"):
The Company holds 89% of the equity of Payton Holdings (an Israeli company).
Payton Holdings is a non-operative company. The investment in Payton Holdings constitutes a capital note in NIS which is not linked to the CPI and does not bear any interest.

B. Payton America Inc. (hereinafter "Payton America"):
Payton America, a fully owned U.S. corporation, located in Florida U.S.A., manufactures and sells Planar transformers and inductors.

C. Himag Planar Magnetics Ltd. (hereinafter "Himag Planar"):
Himag Planar, a fully owned UK subsidiary, incorporated during December 2012 for the purpose of the business activity acquisition of Himag Solutions Ltd. The investment in Himag Planar constitutes capital notes in USD which do not bear any interest. Regarding the acquisition of business activity by Himag Planar, see Note 4B.

Note 17 - Commitments, Contingent Liabilities and Liens

A. The Company has a commitment for a monthly rent of about USD 2 thousand for its one last rented premise in Israel up to the end of December 2014.

The UK subsidiary has a commitment for a monthly rent of about USD 5 thousand up to the end of March 2023.

B. According to a Management Services Agreement signed between the Company and Davit Yativ Technologies and Management Ltd., a management company under the full control of Mr. David Yativ (approved by the Company's General meeting dated November 8, 2011), David Yativ will provide management services as the Active Chairman of the Company. For providing these services by David Yativ its management company will be entitled to management fee at a monthly amount of USD 36 thousand (linked to the local Israeli index) and a yearly bonus calculated as 3.4% of the annual profit before income taxes and before any other profit based bonus.

C. According to the employment agreement as from November 2011, the Company's CEO is entitled to a yearly bonus calculated as 1.6%, 1.8% and 2% of the annual profit before income taxes and before any other profit based bonus for the years 2012, 2013 and 2014, accordingly.

D. As security for Company's liability to the bank in respect of a long-term loan that as at December 31, 2013 amounts to USD 3,126 thousand, the Company registered an unlimited in amount first degree mortgage in favor of the bank on the rights of the real estate property known as lot 64 in block 3850 (hereinafter: "the mortgaged asset"), including all that is attached to the mortgaged asset and will be attached to it in the future as well as the revenues, benefits and all the other rights related to the mortgaged asset, including construction rights and the rights arising from the insurance of the mortgaged asset. As at December 31, 2013 the balance of the mortgaged asset is USD 10,030 thousand (December 31, 2012: USD 5,955 thousand).

Note 18 - Financial Instruments

A. Overview

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

- Credit risk
- Liquidity risk
- Market risk (including currency and interest risks)

This note presents quantitative and qualitative information about the Group's exposure to each of the above risks, and the Group's objectives, policies and processes for measuring and managing risk.
The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

B. Credit risk

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

The Group's revenues are derived from sales to customers in Israel, Asia, Europe, America and other places around the world. The Company's Management regularly monitors the customers' balances and includes specific provisions for doubtful debts in the financial statements that adequately reflect, in the opinion of management, the loss inherent in debts the collection of which is doubtful.

The Group has credit risk insurance for most of its local and other customers, whose yearly activity exceeds USD 5 thousand and USD 10 thousand, respectively.

The Group's cash surpluses are invested in banks. The Group has a surplus cash investment policy for the purpose of reducing risk or maintaining liquidity. This policy is reviewed and updated from time to time according to market changes.

1. Exposure to credit risk

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

	December 31	
	2013	**2012**
	Carrying amount	
	$ thousands	**$ thousands**
Cash and cash equivalents	**5,883**	7,684
Held for trading financial assets	**254**	363
Short-term deposits	**6,133**	10,837
Long-term deposits	**3,002**	-
Trade accounts receivable	**4,030**	3,519
Other accounts receivable	**250**	227
	19,552	22,630

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

Note 18 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk (cont'd)

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

	December 31	
	2013	2012
	Carrying amount	
	$ thousands	$ thousands
Israel	**4,106**	6,676
U.S.A.	**1,736**	1,008
U.K.	**41**	-
	5,883	7,684

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

	December 31	
	2013	2012
	Carrying amount	
	$ thousands	$ thousands
U.S.A.	**254**	363

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

	December 31	
	2013	2012
	Carrying amount	
	$ thousands	$ thousands
Israel	**3,975**	8,679
U.S.A.	**2,158**	2,158
	6,133	10,837

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

	December 31	
	2013	2012
	Carrying amount	
	$ thousands	$ thousands
Israel	**1,001**	-
U.S.A.	**2,001**	-
	3,002	-

Note 18 - Financial Instruments (cont'd)

B. Credit risk (cont'd)

1. Exposure to credit risk (cont'd)

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

	December 31	
	2013	2012
	Carrying amount	
	$ thousands	$ thousands
Israel	**481**	941
Asia	**879**	580
U.K.	**482**	25
Other countries in Europe	**799**	529
U.S.A.	**1,378**	1,441
Canada	**11**	3
	4,030	3,519

Within the years ended December 31, 2013 and 2012 there was no principal customer (which makes up in excess of 10% of the Group's sales).

2. Aging of debts and impairment losses

The aging of trade receivables at the reporting date was:

	December 31			
	2013		2012	
	Gross	Impairment	Gross	Impairment
	$ thousands	$ thousands	$ thousands	$ thousands
Not past due	**3,064**	**-**	2,302	-
Past due 0-30 days	**601**	**-**	1,023	-
Past due 31-120 days	**352**	**-**	183	-
Past due 121 days to one year	**11**	**-**	15	(4)
Past due more than one year	**6**	**(4)**	-	-
	4,034	**(4)**	3,523	(4)

C. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Note 18 - Financial Instruments (cont'd)

C. Liquidity risk (cont'd)

The following are the contractual maturities of financial liabilities based on the actual rates at the reporting date, including estimated interest payments:

	December 31, 2013						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
				$ thousands			
Non-derivative financial liabilities							
Trade payables	**2,351**	**2,351**	**2,351**	**-**	**-**	**-**	**-**
Other payables	**287**	**287**	**287**	**-**	**-**	**-**	**-**
Liabilities to bank and others (1)	**3,564**	**4,197**	**380**	**233**	**602**	**1,525**	**1,457**
	6,202	**6,835**	**3,018**	**233**	**602**	**1,525**	**1,457**

	December 31, 2012						
	Carrying amount	Contractual cash flows	6 months or less	6-12 months	1-2 years	2-5 years	More than 5 years
				$ thousands			
Non-derivative financial liabilities							
Trade payables	1,435	1,435	1,435	-	-	-	-
Other payables	400	400	400	-	-	-	-
Liabilities to bank and others (1)	3,650	4,401	242	293	524	1,484	1,858
	5,485	6,236	2,077	293	524	1,484	1,858

(1) The interest payments on variable interest rate loan and future cash flows on contingent consideration may be different from the amounts in the above table.

Note 18 - Financial Instruments (cont'd)

D. Market risk

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

1. Foreign currency risk

Currency risk

Since most of the Group's sales are in US dollar, the Group's gross profit is exposed to the changes in exchange rates of the US dollar in relation to the NIS and to the Chinese currency with regards to labor costs and costs of raw material. The Company uses derivatives, from time to time, as a tool for economic hedging, especially in order to hedge labor costs and other costs paid in NIS.

(a) The exposure to foreign currency risk

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

	December 31, 2013				
	Dollar	**NIS**	**Euro**	**GBP**	**Total**
			$ thousands		
Current assets:					
Cash and cash equivalents	**5,555**	**103**	**164**	**61**	**5,883**
Marketable securities and short-term deposits	**6,387**	**-**	**-**	**-**	**6,387**
Trade and other receivables	**2,714**	**572**	**535**	**459**	**4,280**
Non-current assets:					
Long-term deposits	**3,002**	**-**	**-**	**-**	**3,002**
Current liabilities:					
Liabilities to bank and others	**(503)**	**-**	**-**	**-**	**(503)**
Trade payables	**(1,492)**	**(779)**	**(11)**	**(69)**	**(2,351)**
Other payables	**(127)**	**(144)**	**(16)**	**-**	**(287)**
Non-current liabilities:					
Liabilities to bank and others	**(3,061)**	**-**	**-**	**-**	**(3,061)**
	12,475	**(248)**	**672**	**451**	**13,350**

Note 18 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Foreign currency risk (cont'd)

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

	December 31, 2012				
	Dollar	**NIS**	**Euro**	**GBP**	**Total**
			$ thousands		
Current assets:					
Cash and cash equivalents	6,210	841	542	91	7,684
Marketable securities and deposits	11,200	-	-	-	11,200
Trade and other receivables	2,756	577	413	-	3,746
Current liabilities:					
Liabilities to bank and others	(408)	-	-	-	(408)
Trade payables	(993)	(431)	(3)	(8)	(1,435)
Other payables	(157)	(210)	(31)	(2)	(400)
Non-current liabilities:					
Liabilities to bank and others	(3,242)	-	-	-	(3,242)
	15,366	777	921	81	17,145

As at December 31, 2013 and 2012 the Group has no open future transactions.

Information regarding significant exchange rates:

	Year ended December 31		Year ended December 31	
	2013	**2012**	**2013**	**2012**
	Rate of change		**Reporting date spot rate**	
	%	**%**	**NIS**	**NIS**
1 US dollar	**(7.02)**	(2.30)	**3.471**	3.733

	Year ended December 31		Year ended December 31	
	2013	**2012**	**2013**	**2012**
	Rate of change		**Reporting date spot rate**	
	%	**%**	**Euro**	**Euro**
1 US dollar	**(4.35)**	(1.94)	**0.726**	0.759

	Year ended December 31		Year ended December 31	
	2013	**2012**	**2013**	**2012**
	Rate of change		**Reporting date spot rate**	
	%	**%**	**GBP**	**GBP**
1 US dollar	**(2.26)**	(4.63)	**0.604**	0.618

Note 18 - Financial Instruments (cont'd)

D. Market risk (cont'd)

1. Foreign currency risk (cont'd)

(b) Sensitivity analysis

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

	December 31, 2013	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	**(12)**	**(12)**
5% in the Euro	**34**	**34**
5% in the GBP	**22**	**22**

	December 31, 2012	
	Equity	Profit or loss
	$ thousands	$ thousands
Increase in the exchange rate of:		
5% in the NIS	39	39
5% in the Euro	46	46
5% in the GBP	4	4

A strengthening of the USD against the above currencies as at December 31 would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

2. Interest rate risk

The Group's exposure to market risk for changes in interest rates relates primarily to cash and cash equivalents, short-term and long-term deposits (mostly in US dollars) which bear interest rates given by or affected by banks in the range of 0.12%-1.18% which changes from time to time, and marketable securities.

(a) Profile

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

	December 31	
	2013	2012
	Carrying amount	
	$ thousands	$ thousands
Fixed rate instruments		
Financial assets	**10,354**	16,927
Variable rate instruments		
Financial liabilities	**3,126**	3,450

Note 18 - Financial Instruments (cont’d)

D. Market risk (cont'd)

2. Interest rate risk (cont’d)

(b) Fair value sensitivity analysis for fixed rate instruments

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

E. Fair value

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

Fair value hierarchy

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

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

	December 31, 2013		
	Level 1	Level 3	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	**980**	**-**	**980**
Contingent consideration	**-**	**438**	**438**

	December 31, 2012		
	Level 1	Level 3	Total
	$ thousands	$ thousands	$ thousands
Marketable securities held for trading	1,182	-	1,182
Contingent consideration	-	200	200

The fair value of contingent consideration is calculated at the time of the business combination using the income approach based on the expected payment amounts and their associated probabilities (i.e. probability-weighted). The liability is discounted to present value using the market interest rate at the reporting date.

Note 18 - Financial Instruments (cont'd)

E. Fair value (cont'd)

Significant unobservable inputs include the expected annual sales turnover and the discount rate (16.6%). The estimate of fair value will increase as the expected annual sales turnover increases and the discount rate decreases.
As at December 31, 2013 the fair value of the contingent consideration has increased to USD 438 thousand. The total increase of USD 238 thousand has been recognized in the statement of income as follows:

1. An amount of USD 222 thousand that reflects the changes related to the expected annual sales turnover increase has been recognized as other expenses.
2. An amount of USD 16 thousand that reflects the changes related to the time value of the liability since the date of acquisition has been recognized as financing expenses.

A change in one of the unobservable inputs will affect the estimated fair value of the contingent consideration as of December 31, 2013, as follows:

1. A decrease of 5% in the discount rate will cause in an increase of USD 4 thousand.
2. An increase of 5% in the expected annual sales turnover will cause in an increase of USD 9 thousand.

A change in these unobservable inputs at the same opposite rate will have the equal but opposite effect on the fair value of the contingent consideration.

Note 19 - Share Capital

Composition

	Number of shares	
	Authorized	Issued and paid
	December 31, 2013 and 2012	
Ordinary shares of NIS 1 each	**20,000,000**	**17,670,775**

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to Company's residual assets.

Note 20 - Income Statement Data

A. Revenues

1. Revenues

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Export	**18,741**	16,268
Local	**1,280**	1,333
	20,021	17,601

2. Principal customers

Within the years ended December 31, 2013 and 2012 there was no principal customer (which makes up in excess of 10% of the Group's sales).

B. Cost of sales

1. Cost of sales

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Materials consumed	**7,390**	6,487
Salaries and related benefits	**4,257**	3,516
Depreciation	**616**	461
Other manufacturing expenses	**1,153**	1,095
Change inventory of finished products and work in process	**440**	(325)
	***13,856**	*11,234

* Includes inventory write-off of USD 265 thousand and USD 89 thousand for the years ended December 31, 2013 and 2012, respectively.

Note 20 - Income Statement Data (cont'd)

B. Cost of sales (cont'd)

2. Principal Suppliers

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

	For the year ended December 31	
	2013	2012
	%	%
Supplier A	**42**	30
Supplier B	*	23

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

C. Selling and marketing expenses

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Salaries and related benefits	**825**	740
Sales commissions	**638**	653
Advertising and marketing	**82**	61
Exhibits and travel abroad	**291**	245
Other	**96**	29
	1,932	1,728

D. General and administrative expenses

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Salaries and related benefits	**1,148**	993
Office rent, maintenance and communications	**229**	171
Depreciation	**230**	135
Professional services	**267**	270
Management fees	**302**	335
Other	**628**	421
	2,804	2,325

E. Other expenses

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Capital loss on sale of fixed assets	**(47)**	(5)
Expenses arising from the move to the new facility	**(206)**	-
Changes in the fair value of contingent consideration (see Note 18E)	**(222)**	-
	(475)	(5)

Note 20 - Income Statement Data (cont'd)

F. Finance income and expenses

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Finance income		
Interest income from bank deposits	**86**	189
Income from marketable securities held for trading	**33**	172
Exchange rate differences, net	**100**	120
Interest from transactions with parent company	**11**	4
Interest from tax overpayments	**16**	-
Other	**15**	96
	261	581
Finance expenses		
Bank charges and others	**28**	31
Interest on bank loan	**82**	-
Interest for delayed tax payments	**-**	138
Changes in fair value of contingent consideration (see Note 18E)	**16**	-
Other	**-**	1
	126	170

G. Transactions with related parties

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Management fees and related benefits to David Yativ, Technologies and Management*	**456**	477
Financing (income) from the Parent Company	**(11)**	(4)
Fees to directors	**33**	33
Short-term employee benefits (2013: 5 personnel, 2012: 6 personnel)	**585**	670
Post-employment benefits (2013: 5 personnel, 2012: 6 personnel)	**120**	103
Purchase of fixed assets from the Parent Company	**-**	50

Regarding balances with related parties - see Note 8.
Regarding acquisition of business activity from Payton Technologies - see Note 4A.

* Management fees and related benefits to David Yativ, Technologies and Management Ltd. (see Note 17B) include an amount of USD 126 thousand (year ended December 31, 2012: USD 116 thousand) allocated as selling and marketing expenses and an amount of USD 28 thousand (year ended December 31, 2012: USD 26 thousand) allocated as general and administrative expenses.

Note 21 - Income Taxes

A. Details regarding the tax environment of the Company

1. Corporate tax rate

(a) Presented hereunder are the tax rates relevant to companies that are not entitled to benefits according to the Law for the Encouragement of Capital Investments in the years 2012-2013:
2012 – 25%
2013 – 25%

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, by which, inter alia, the corporate tax rate will be raised by 1.5% to a rate of 26.5% as from 2014.

The deferred tax balances as at December 31, 2013 were calculated according to the new tax rates specified in the Law for Changes in National Priorities, at the tax rate expected to apply on the date of reversal. The effect of the change on the financial statements as at December 31, 2013 is reflected in an increase in the deferred tax asset, net in the amount of USD 15 thousand against a decrease in deferred tax expenses.

Current taxes for the reported periods are calculated according to the tax rates presented above. See also Note 21A4 hereunder.

(b) On February 4, 2010 Amendment 174 to the Income Tax Ordinance (New Version) – 1961 (hereinafter – “the Ordinance”) was published in the Official Gazette. The amendment added Section 87A to the Ordinance, which provides a temporary order whereby Accounting Standard No. 29 “Adoption of International Financial Reporting Standards (IFRS)” that was issued by the Israel Accounting Standards Board shall not apply when determining the taxable income for the 2007, 2008 and 2009 tax years even if this standard was applied when preparing the financial statements (hereinafter – “the Temporary Order”). On January 12, 2012 Amendment 188 to the Ordinance was issued, by which the Temporary Order was amended so that Standard 29 shall not apply also when determining the taxable income for 2010 and 2011.

2. The Dollar regulations

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").

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

The Company currently qualifies as an “Industrial Company” as defined in the Law for the Encouragement of Industry (Taxes) - 1969 and accordingly it is entitled to benefits, of which the most significant one is higher rates of depreciation.

Note 21 - Income Taxes (cont'd)

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

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

Amendment to the Law for the Encouragement of Capital Investments – 1959

On December 29, 2010 the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments - 1959 (hereinafter - "the Amendment to the Law"). The Amendment to the Law is effective from January 1, 2011 and its provisions apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment to the Law. Companies can choose not to be included in the scope of the Amendment to the Law and to stay in the scope of the law before its amendment until the end of the benefits period of its approved/beneficiary enterprise. The 2012 tax year is the last year companies can choose as the year of election, providing that the minimum qualifying investment began in 2010.

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the "Ireland track" and the "Strategic" track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company's income entitled to benefits, such as: for a preferred enterprise - in the 2011-2012 tax years - a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years - a tax rate of 7% for Development Area A and of 12.5% for the rest of the country and as from 2015 tax year - a tax rate of 6% for Development area A and of 12% for the rest of the country. On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which cancelled the planned tax reduction so that as from the 2014 tax year the tax rate on preferred income will be 9% for Development Area A and 16% for the rest of the country. Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% if it is located in Development Area A or of 8% if it is located in a different area.

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% shall apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties. The Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013 raised to 20% the tax rate on a dividend distributed to an individual and foreign resident out of preferred income as from January 1, 2014.

Note 21 - Income Taxes (cont'd)

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

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

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

Furthermore, the Amendment to the Law provides relief (hereinafter - "the relief") with respect to the non-payment of tax on a dividend received by an Israeli company from profits of an approved/alternative/beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice. Furthermore, a distribution from profits of the exempt enterprise will be subject to tax by the distributing company.

The Company complies with the conditions provided in the amendment to the Law for the Encouragement of Capital Investments for inclusion in the scope of the tax benefits track.
The Company implements the Amendment to the Law as from the 2012 tax year.

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

A subsidiary that was incorporated in the USA is subject to the tax rate of its country of domicile.
The primary tax rates applicable to the subsidiary are Federal Tax at gradual rates up to 35% and 5% State Tax.

C. Details regarding the tax environment of the subsidiary in UK

A subsidiary that was incorporated in the UK is subject to the tax rate of its country of domicile.
The primary tax rate applicable to the subsidiary is 20%.

D. Final tax assessments

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

With few exceptions the U.S. subsidiary is no longer subject to U.S. Federal income tax examinations by tax authorities for years before 2010.

Note 21 - Income Taxes (cont'd)

E. Composition of income tax expense (income)

	For the year ended December 31	
	2013	**2012**
	$ thousands	**$ thousands**
Current year taxes	**98**	392
Adjustments for prior years	**-**	(929)
Deferred tax income - creation and reversal of temporary differences	**(20)**	(31)
Deferred tax income - effect of change in tax rate	**(15)**	-
	63	(568)

F. Reconciliation between the theoretical tax on the pre-tax profit and the tax expense (income)

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

A reconciliation of the statutory tax expense, assuming all income is taxed at the statutory rate applicable to the income of companies in Israel, and their actual tax expense (income), is as follows:

	For the year ended December 31	
	2013	**2012**
	$ thousands	**$ thousands**
Tax rate	**25%**	25%
Profit before tax	**176**	1,874
Income tax using the domestic corporations tax rate	**44**	468
Additional tax saving in respect of foreign subsidiary	**(5)**	(8)
Non-deductible expenses and tax exempt income, net	**14**	1
Tax benefits due to Preferred Enterprise status	**(78)**	(128)
Current year tax losses for which deferred taxes were not created	**106**	-
Change in tax rate	**(15)**	-
Taxes in respect of previous years	**-**	(929)
Others	**(3)**	28
	63	(568)

Note 21 - Income Taxes (cont'd)

G. Deferred tax assets and liabilities

(1) Recognized deferred tax assets and liabilities

Deferred taxes in respect of companies in Israel are calculated according to the tax rate anticipated to be in effect on the date of reversal as stated above. Deferred taxes in respect of foreign subsidiary are calculated according to the relevant tax rates.

Deferred tax assets and liabilities are attributable to the following items:

	Carry-forward tax losses	Employee benefits	Fixed assets	Other	Total
			$ thousands		
Balance as at January 1, 2012	-	92	-	2	94
Changes in 2012	-	32	-	(1)	31
Balance as at December 31, 2012	-	124	-	1	125
Effect of change in tax rate	**-**	**16**	**(1)**	**-**	**15**
Changes in 2013	**33**	**26**	**(39)**	**-**	**20**
Balance as at December 31, 2013	**33**	**166**	**(40)**	**1**	**160**

(2) Unrecognized deferred tax liabilities

As at December 31, 2013 a deferred tax liability in the amount of USD 93 thousand (2012: USD 140 thousand) for temporary differences in the amount of USD 372 thousand (2012: USD 559 thousand) related to an investment in a subsidiary was not recognized because the decision as to whether to incur the liability rests with the Group and it is satisfied that it will not be incurred in the foreseeable future.

(3) Unrecognized deferred tax assets

As at December 31, 2013 deferred tax assets have not been recognized in respect of tax losses in the amount of USD 424 thousand since it is not probable that future taxable profit will be available, against which the Group can utilize the benefits.

Note 22 - Earnings Per Share

Basic earnings per share

	For the year ended December 31	
	2013	2012
	$ thousands	$ thousands
Profit for the year	**113**	2,442
Issued ordinary shares (in thousands of shares)	**17,671**	17,671
Basic earnings per ordinary share (in US$)	**0.01**	0.14

Note 23 - Entity Wide Disclosure

1. The Group has one operating segment, the transformer segment. The Group's chief operating decision maker makes decisions and allocates resources with respect to all the transformers as a whole.

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

	For the year ended December 31, 2013				
	Israel	Europe	America	Asia	Total
	$ thousands	$ thousands	$ thousands	$ thousands	$ thousands
Revenues	**2,404**	**5,898**	**6,876**	**4,843**	**20,021**
Non-current Assets	**11,872**	**1,039**	**806**	**-**	**13,717**

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

2. Information about sales to principal customers - see Note 20A2.