Payton Planar Magnetics Ltd.
and its Consolidated Subsidiaries
Financial Statements
June 30, 2018 (Unaudited)

Contents

The Board of Directors' Report[1] on Corporate Affairs

We are pleased to present the Board of Directors' report on the affairs of Payton Planar Magnetics Ltd. and its consolidated subsidiaries
for the six months ended on June 30, 2018.

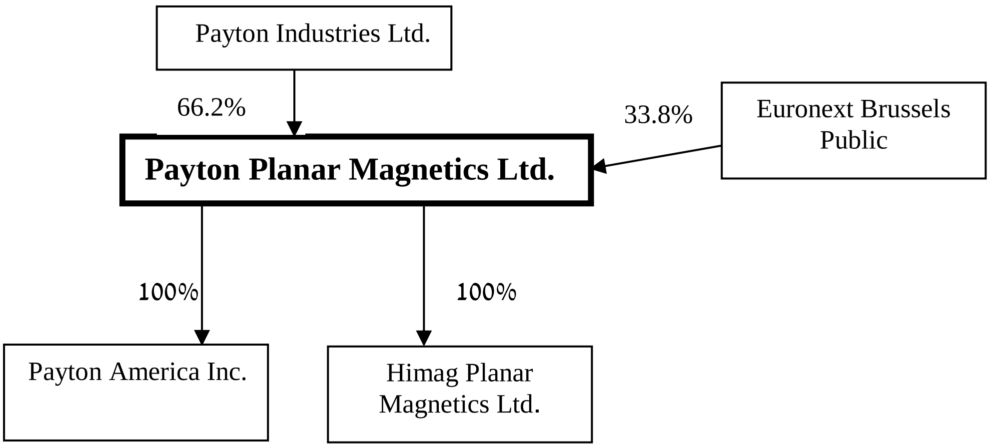
***Notice**: This report contains certain forward-looking statements and information relating to the Company that are based on the beliefs of the Management of the Company as well as assumptions made by and information currently available to the Management of the Company. Such statements reflect the current views of the Company with respect to future events. Management emphasizes that the assumptions do 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") and Himag Planar Magnetics Ltd.



B. The Group's main fields of activity and changes that occurred in the period from January to June 2018

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.

During the first half year of 2018, the Group kept expanding its regular course of business. Sales volume increased by 53% compared to the same period last year. Sales increase is attributed mainly to volume increase in existing projects.

[1] The financial statements as at June 30, 2018 form an integral part thereof.

As from January 1, 2018 - the Group initially applies International Financial Reporting Standard 15 (“IFRS 15” or “the standard”) which provides guidance on revenue recognition. The Group elected to apply the standard using the cumulative effect approach, with an adjustment to the balance of retained earnings as at January 1, 2018 and without a restatement of comparative data. According to the standard, the Group recognizes revenue from goods with no alternative use over time, unlike the previous accounting treatment by which the Group recognized revenue based on delivery of the goods. The effect of the initial application of the standard on the Condensed Consolidated Interim Financial Statements as of June 30, 2018 is detailed in note 3(1) to the interim report.

On March 26, 2018 - the Company’s Board of Directors decided to pay the shareholders a dividend for the financial year 2017, at the amount of USD 3,092 thousand (USD 0.175 per share, paid in full on May 24, 2018). The Board shall recommend the General Meeting to approve the said amount as final.

On August 16, 2018 - Payton Planar Magnetics’ (“Payton”) board of directors approved a share purchase agreement with a Hong-Kong holding company having a fully owned manufacturing subsidiary in Dongguan, China, which currently serves as one of Payton’s major Manufacturing Partners. The planned strategic investment, at the amount of USD 1 million, will grant Payton 20% of the rights in the parent Hong-Kong holding company and proportional representation on its board. An option to increase Payton’s share up to 35% of the rights in the parent Hong-Kong holding company was also agreed. The closing, planned for October 2018, is subject to the fulfilment of several conditions, including signing a shareholder agreement between Payton and the Hong-Kong holding company.

C. Principal customers

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

	For the six-month period ended June 30	**For the year ended December 31**	**For the six-month period ended June 30**
	2018	**2017**	**2017**
Customer A	27.5%	18.2%	19.8
Customer B	11.5%	10.3%	*
Customer C	11.0%	*	*

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

D. Marketing

The Group participates in leading electronic exhibitions. During 2018 the Group participated in APEC in San-Antonio TX, USA (March, 2018), PCIM Europe 2018 Exhibition, Nuremberg, Germany (June, 2018), New-Tech Exhibition, Tel-Aviv, Israel (May, 2018) and others. In addition Company is focusing on serving Key customers with routine visits and latest technology development updates.

E. Order Backlog

Order backlog of the Group as of June 30, 2018 was USD 25,305 thousand (December 31, 2017 - USD 16,796 thousand). The backlog is composed only of firm orders.
Management estimates that most of the backlog as of 30.6.2018 will be supplied until June 30, 2019.

2. Financial position

A. Statement of Financial Position as at June 30, 2018

Cash and cash equivalents and Short-term Deposits **-** these items amounted to a total of USD 25,619 thousand as at June 30, 2018 compared to USD 24,448 thousand as at December 31, 2017 and USD 24,762 thousand as at June 30, 2017.
The increase in these items, compared with June 30, 2017 is explained mainly by Company's profitability, attributing the increase in its solid cash position, which covered back the cash paid out as dividend, at the amount of USD 6,184 thousand (USD 3,092 thousand on July 2017, and USD 3,092 thousand on June 2018).

Trade accounts receivable **-** these amounted to USD 7,492 thousand as at June 30, 2018 compared with USD 6,545 thousand as at December 31, 2017 and USD 4,613 thousand as at June 30, 2017. The increase in this item is in line with the sales increase in the period near the reports dates.

Other accounts receivable **-** these amounted to USD 1,830 thousand as at June 30, 2018 compared with USD 406 thousand as at December 31, 2017 and USD 342 thousand as at June 30, 2017. The increase in this item is due to the implementation of IFRS 15, the new revenue recognition standard, which requires the Company to recognize revenues over time instead of upon delivery. Revenues recorded prior to delivery are recorded against "contract assets", which are presented among "other accounts receivable". As at June 30, 2018, such contact assets amounted to approximately USD 1.3 million. Since the Company adopted IFRS 15 using the cumulative effect approach, there were no contract assets recorded at December 31, 2017 or June 30, 2017.

Trade payables **-** amounted to USD 4,317 thousand as at June 30, 2018 compared with USD 3,092 thousand as at December 31, 2017 and USD 2,659 thousand as at June 30, 2017. The increase in this item is in line with the increase in the business activity near the reports dates.

B. Operating results

Statements of Income
US Dollars in thousands

Payton Planar Magnetics Ltd.
Consolidated Comprehensive Income Statements

	Half year 1-6/2018	Half year 1-6/2017	Year Ended 31/12/2017
Sales revenues	22,056	14,370	33,043
Cost of sales	12,281	8,774	20,064
Gross profit	*9,775*	*5,596*	*12,979*
Development costs	(719)	(613)	(1,240)
Selling & marketing expenses	(1,150)	(1,156)	(2,269)
General & administrative expenses	(1,757)	(1,492)	(2,948)
Other income, net	7	-	4
Operating income	*6,156*	*2,335*	*6,526*
Finance income, net	97	146	313
Profit before income taxes	*6,253*	*2,481*	*6,839*
Income taxes	(1,058)	(532)	(1,295)
Net profit for the period	*5,195*	*1,949*	*5,544*
Other comprehensive loss items that will not be transferred to profit &loss			
Remeasurement of defined benefit plan, net of taxes	-	-	(37)
Total other comprehensive loss	-	-	(37)
Total comprehensive income for the period	*5,195*	*1,949*	*5,507*

General Note: The Group is exposed to abrasion of the USD in relation to the NIS, Euro (€) and the Pound (£). Most of the Group's salaries and other operating costs are fixed in local currencies. Revaluation of the local currencies drives to an increase or decrease in labor costs and other operating costs, thus, affects the operating results of the Company**.**

Sales revenues **-** The Group's sales revenues for the six-month period ended June 30, 2018 were USD 22,056 thousand compared with USD 14,370 thousand in the six-month period ended June 30, 2017. The sales increase resulted mainly from an increase in the volume of existing projects.

Gross profit **-** The Group's gross profit for the six-month period ended June 30, 2018 amounted USD 9,775 thousand (44% of sales) compared with USD 5,596 thousand (39% of sales) in the six-month period ended June 30, 2017. The increase in the gross profit relates mainly due to different products mix and production locations of each period, as well as from efficiency improvements as result of the volume increase.

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 six months ended June 30, 2018 were USD 719 thousand compared with USD 613 thousand in the same period last year. The increase is mainly explained by an increase in development team labor costs also as result of local currency revaluation.

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 (It is noted that not all the sales are subject to reps' commissions) 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 six-month period ended June 30, 2018 were USD 1,150 thousand (5%) and USD 1,156 thousand (8%) in the six-month period ended June 30, 2017. The decrease in these expenses portion out of total sales stemmed, inter alia, from the increase in sales to customers which were not subject to reps' commission.

General & Administrative expenses - The Group's General & Administrative expenses for the six months ended June 30, 2018 were USD 1,757 thousand compared with USD 1,492 thousand in the same period last year. The increase in these expenses relates mainly due to an increase in management incentives derived from the profits increase.

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			
	June 30, 2018	**December 31, 2017**	**June 30, 2017**
Current ratio[2]	5.28	5.89	4.05
Quick ratio[3]	4.74	5.27	3.59

B. Operating activities

Cash flows generated from operating activities for the six-month period ended June 30, 2018 amounted USD 4,578 thousand, compared with cash flows generated from operating activities of USD 4,735 thousand for the six-month period ended June 30, 2017. The cash flows from operating activities generated mainly from the profit for the period, shorten by non-cash adjustments and by the changes in assets and liabilities.

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

C. Investing activities

Cash flows generated from investing activities in the six-month period ended June 30, 2018, amounted USD 2,823 thousand, compared with cash flows used for investing activities of USD 4,508 thousand in the six-month period ended June 30, 2017. In the first half of 2018 cash flows generated mostly from proceeds of bank deposits.

D. Financing activities

Cash flows used for financing activities in the six-month period ended June 30, 2018, amounted USD 3,092 thousand, compared with USD 24 thousand in the six-month period ended June 30, 2017.
During the first half of 2018 a dividend, at the amount of USD 3,092 thousand (announced March 26, 2018) was paid in full.

4. Financing sources

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

5. Subsequent Events

Payton Planar Magnetics' ("Payton") board of directors approved, on August 16, 2018, a share purchase agreement with a Hong-Kong holding company having a fully owned manufacturing subsidiary in Dongguan, China, which currently serves as one of Payton's major Manufacturing Partner. The planned strategic investment, at the amount of USD 1 million, will grant Payton 20% of the rights in the parent Hong-Kong holding company and proportional representation on its board. An option to increase Payton's share up to 35% of the rights in the parent Hong-Kong holding company was also agreed. The closing, planned for October 2018, is subject to the fulfilment of several conditions, including signing a shareholder agreement between Payton and the Hong-Kong holding company.

6. External factors effects

Revaluation/devaluation of the local currencies, NIS and GBP, 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 local currencies; therefore, the operating results are affected.
Devaluation of the Euro(€) and Pound(£) in relation to the U.S. Dollar leads to a decrease in Group's assets in those currencies.

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.

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

Pursuant to article 12 § 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 June 30, 2018 are drawn up in accordance with IFRS and with IAS 34 "Interim Financial 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 first six months of year 2018, their impact on the financial statements, the main risk factors and uncertainties for the remaining months of the financial year, as well as the main transactions with related parties and their possible impact on the abbreviated 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 extent its sincere thanks to the entire personnel for their efforts and contribution to the Group's affairs.

Ness Ziona, August 16, 2018.

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

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Review Report to the Shareholders of Payton Planar Magnetics Ltd.

Introduction

We have reviewed the accompanying financial information of Payton Planar Magnetics Ltd. and its subsidiaries comprising of the condensed consolidated interim statement of financial position as of June 30, 2018 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34 "*Interim Financial Reporting"*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying financial information was not prepared, in all material respects, in accordance with IAS 34 "Interim Financial Reporting."

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

August 16, 2018

Condensed Consolidated Interim Statements of Financial Position as at

	June 30 2018	June 30 2017 *	December 31 2017 *
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Current assets			
Cash and cash equivalents	**9,378**	8,381	5,089
Short-term deposits	**16,241**	16,381	19,359
Trade accounts receivable	**7,492**	4,613	6,545
Other accounts receivable	**1,830**	342	406
Inventory	**4,003**	3,760	3,647
Total current assets	**38,944**	33,477	35,046
Non-current assets			
Fixed assets	**11,557**	11,792	11,641
Intangible assets	**22**	33	22
Deferred taxes	**-**	-	3
Total non-current assets	**11,579**	11,825	11,666
Total assets	**50,523**	45,302	46,712

* See Note 3(1) regarding initial application of IFRS 15, *Revenue from Contracts with Customers*. According to the transitional method that was chosen, comparative data were not restated.

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

Condensed Consolidated Interim Statements of Financial Position as at (cont'd)

	June 30 2018	June 30 2017 *	December 31 2017 *
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Liabilities and equity			
Current liabilities			
Trade payables	**4,317**	2,659	3,092
Other payables	**1,725**	1,209	1,478
Dividend payable	**-**	3,092	-
Current tax liability	**853**	808	926
Employee benefits	**476**	506	457
Total current liabilities	**7,371**	8,274	5,953
Non-current liabilities			
Employee benefits	**520**	425	514
Deferred tax liabilities	**930**	683	767
Total non-current liabilities	**1,450**	1,108	1,281
Total liabilities	**8,821**	9,382	7,234
Equity			
Share capital	**4,836**	4,836	4,836
Share premium	**8,993**	8,993	8,993
Retained earnings	**27,873**	22,091	25,649
Total equity	**41,702**	35,920	39,478
Total liabilities and equity	**50,523**	45,302	46,712

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

Date of approval of the interim financial statements: August 16, 2018

* See Note 3(1) regarding initial application of IFRS 15, *Revenue from Contracts with Customers*. According to the transitional method that was chosen, comparative data were not restated.

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

Condensed Consolidated Interim Statements of Profit or Loss and Other Comprehensive Income

	For the six months ended June 30		Year ended December 31
	2018	2017 *	2017 *
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Revenues	**22,056**	14,370	33,043
Cost of sales	**(12,281)**	(8,774)	(20,064)
Gross profit	**9,775**	5,596	12,979
Development costs	**(719)**	(613)	(1,240)
Selling and marketing expenses	**(1,150)**	(1,156)	(2,269)
General and administrative expenses	**(1,757)**	(1,492)	(2,948)
Other income, net	**7**	-	4
Operating profit	**6,156**	2,335	6,526
Finance income	**186**	176	357
Finance expenses	**(89)**	(30)	(44)
Finance income, net	**97**	146	313
Profit before income taxes	**6,253**	2,481	6,839
Income taxes	**(1,058)**	(532)	(1,295)
Profit for the period	**5,195**	1,949	5,544
Other comprehensive loss items that will not be transferred to profit and loss			
Remeasurement of defined benefit plan, net of taxes	**-**	-	(37)
Total other comprehensive loss	**-**	-	(37)
Total comprehensive income for the period	**5,195**	1,949	5,507
Basic earnings per share (in $)	**0.29**	0.11	0.31

* See Note 3(1) regarding initial application of IFRS 15, *Revenue from Contracts with Customers*. According to the transitional method that was chosen, comparative data were not restated.

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

Condensed Consolidated Interim Statement of Changes in Equity

	Share capital		Share premium	Retained earnings	Total
	Number of shares	$ thousands	$ thousands	$ thousands	$ thousands
For the six months ended June 30, 2018 (Unaudited)					
Balance at January 1, 2018	**17,670,775**	**4,836**	**8,993**	**25,649**	**39,478**
Effect of initial application of IFRS 15 *	**-**	**-**	**-**	**121**	**121**
Balance as at January 1, 2018 after initial application	**17,670,775**	**4,836**	**8,993**	**25,770**	**39,599**
Total comprehensive income for the period					
Profit for the period	**-**	**-**	**-**	**5,195**	**5,195**
Total comprehensive income for the period	**-**	**-**	**-**	**5,195**	**5,195**
Transactions with owners, recognized directly in equity					
Dividend to owners	**-**	**-**	**-**	**(3,092)**	**(3,092)**
Balance at June 30, 2018	**17,670,775**	**4,836**	**8,993**	**27,873**	**41,702**
For the six months ended June 30, 2017 (Unaudited)					
Balance at January 1, 2017	17,670,775	4,836	8,993	23,234	37,063
Total comprehensive income for the period					
Profit for the period	-	-	-	1,949	1,949
Total comprehensive income for the period	-	-	-	1,949	1,949
Transactions with owners, recognized directly in equity					
Dividend to owners	-	-	-	(3,092)	(3,092)
Balance at June 30, 2017	17,670,775	4,836	8,993	22,091	35,920
For the year ended December 31, 2017 (Audited)					
Balance at January 1, 2017	17,670,775	4,836	8,993	23,234	37,063
Total comprehensive income for the year					
Profit for the year	-	-	-	5,544	5,544
Other comprehensive loss	-	-	-	(37)	(37)
Total comprehensive income for the year	-	-	-	5,507	5,507
Transactions with owners, recognized directly in equity					
Dividend to owners	-	-	-	(3,092)	(3,092)
Balance at December 31, 2017	17,670,775	4,836	8,993	25,649	39,478

* See Note 3(1) regarding initial application of IFRS 15, *Revenue from Contracts with Customers*. According to the transitional method that was chosen, comparative data were not restated.

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

Condensed Consolidated Interim Statements of Cash Flows

	For the six months ended June 30		Year ended December 31
	2018	2017 *	2017 *
	(Unaudited)	(Unaudited)	(Audited)
	$ thousands	$ thousands	$ thousands
Operating activities			
Profit for the period	**5,195**	1,949	5,544
Adjustments to reconcile profit to net cash generated from operating activities:			
Depreciation and amortization	**448**	467	931
Income taxes	**1,058**	532	1,295
Capital gain on sale of fixed assets	**(7)**	-	(4)
Finance income, net	**(142)**	(152)	(301)
Increase in employee benefits	**25**	160	154
(Increase) decrease in trade accounts receivable	**(947)**	3,180	1,248
(Increase) decrease in other accounts receivable	**(824)**	213	150
(Increase) decrease in inventory	**(806)**	(92)	21
Increase (decrease) in trade payables	**1,201**	(1,080)	(663)
Increase (decrease) in other payables	**247**	(192)	77
Interest received	**148**	40	214
Interest paid	**(24)**	-	(7)
Tax paid	**(994)**	(290)	(846)
Cash flows generated from operating activities	**4,578**	4,735	7,813
Investing activities			
Proceeds from (investments in) deposits, net	**3,156**	(4,246)	(7,254)
Investment in fixed assets	**(343)**	(262)	(555)
Proceeds from sale of fixed assets	**10**	-	11
Cash flows generated from (used for) investing activities	**2,823**	(4,508)	(7,798)
Financing activities			
Payment of contingent consideration	**-**	(24)	(24)
Dividend paid	**(3,092)**	-	(3,092)
Cash flows used for financing activities	**(3,092)**	(24)	(3,116)
Net increase (decrease) in cash and cash equivalents	**4,309**	203	(3,101)
Cash and cash equivalents at the beginning of the period	**5,089**	8,150	8,150
Effect of exchange rate fluctuations on cash and cash equivalents	**(20)**	28	40
Cash and cash equivalents at the end of the period	**9,378**	8,381	5,089

* See Note 3(1) regarding initial application of IFRS 15, *Revenue from Contracts with Customers*. According to the transitional method that was chosen, comparative data were not restated.

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

Note 1 - General

Payton Planar Magnetics Ltd. ("the Company") was incorporated in December 1992. The address of the Company’s registered office is 3 Ha’avoda Street, Ness-Ziona.
The Company is a subsidiary of Payton Industries Ltd. (the "Parent Company"). The securities of the Company are registered for trade on the Euronext stock exchange in Brussels.

The condensed consolidated interim financial statements of the Group as at June 30, 2018 comprise the Company and its subsidiaries (together referred as the “Group”).

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

Note 2 - Basis of Preparation

A. Statement of compliance

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 “Interim Financial Reporting”. They do not include all the information required for full annual financial statements, and should be read in conjunction with the consolidated financial statements as at December 31, 2017 (hereinafter “annual financial statements”).
These condensed consolidated interim financial statements were authorized for issue by the Group’s Board of Directors on August 16, 2018.

B. Semi-annual reports

Starting January 1, 2017, according to the new regulation of the Israeli Securities' Authority, ‘Small Corporations’ are exempted from publishing quarterly financial statements for the 1^{st} and the 3^{rd} quarters and may publish their financial statements only twice a year (half year and full year). Therefore, the Company shall publish its financial results on a semi-annual basis.

C. Use of estimates and judgments

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

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements.

Note 3 - Significant Accounting Policies

Except as described below, the accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its annual financial statements.

Presented hereunder is a description of the changes in accounting policies applied in these condensed consolidated interim financial statements and their effect:

Initial application of new standards, amendments to standards and interpretations

As from January 1, 2018, the Group applies the new standards and amendments to standards described below:

(1) IFRS 15, *Revenue from Contracts with Customers*

As from January 1, 2018, the Group initially applies International Financial Reporting Standard 15 ("IFRS 15" or "the standard") which provides guidance on revenue recognition.

The Group elected to apply the standard using the cumulative effect approach, with an adjustment to the balance of retained earnings as at January 1, 2018 and without a restatement of comparative data.

The standard introduces a new five steps model for analyzing transactions so as to determine when to recognize revenue and at what amount.

The Group's revenue is generated from the sale of goods manufactured according to customer specifications and based on NCNR terms (non-cancelation and non-refundable). The Group is entitled to reimbursement of the costs incurred to date, including a reasonable margin. Customer-specific goods cannot be sold to any other customer and therefore have no alternative use.

According to the standard, the Group recognizes revenue from goods with no alternative use over time, unlike the previous accounting treatment by which the Group recognized revenue only when the goods were transferred to the customer or to its forwarder.

The table below presents the cumulative effect on the items affected by the initial application in the statement of financial position as at January 1, 2018:

	According to the previous policy	The change	According to IFRS 15
	$ thousands	$ thousands	$ thousands
	(Unaudited)	(Unaudited)	(Unaudited)
Other accounts receivable	406	600	1,006
Inventory	3,647	(450)	3,197
Deferred tax liabilities	767	29	796
Retained earnings	25,649	121	25,770

Note 3 - Significant Accounting Policies (cont'd)

Initial application of new standards, amendments to standards and interpretations (cont'd)

(1) IFRS 15, *Revenue from Contracts with Customers* (cont'd)

The tables below present the effects on the statement of financial position as at June 30, 2018 and on the income statement for the six-month period ended, assuming that the previous revenue recognition policy would have continued in that period:

Effect on the statement of financial position as at June 30, 2018:

	According to the previous policy	The change	According to IFRS 15
	$ thousands	$ thousands	$ thousands
	(Unaudited)	(Unaudited)	(Unaudited)
Other accounts receivable	562	1,268	1,830
Inventory	4,954	(951)	4,003
Deferred tax liabilities	870	60	930
Retained earnings	27,616	257	27,873

Effect on the income statement for the six months ended June 30, 2018:

	According to the previous policy	The change	According to IFRS 15
	$ thousands	$ thousands	$ thousands
	(Unaudited)	(Unaudited)	(Unaudited)
Revenues	20,788	1,268	22,056
Cost of sales	(11,330)	(951)	(12,281)
Gross profit	9,458	317	9,775
Operating profit	5,839	317	6,156
Profit before income taxes	5,936	317	6,253
Income taxes	(998)	(60)	(1,058)
Profit for the period	4,938	257	5,195
Basic earnings per share	0.28	0.01	0.29

(2) IFRS 9 (2014), *Financial Instruments*

As from the first quarter of 2018 the Group applies IFRS 9 (2014), *Financial Instruments* (in this item: "the standard" or "IFRS 9"), which replaces IAS 39, *Financial Instruments: Recognition and Measurement* (in this item "IAS 39").
The application of IFRS 9 (2014) did not have a material effect on the financial statements.

Note 4 - Dividends

A. On March 26, 2018, the Company's Board of Directors decided to pay the shareholders a dividend for the financial year 2017 at the amount of USD 3,092 thousand (USD 0.175 per share, paid on May 24, 2018).

B. On June 5, 2017, the Company's Board of Directors decided to pay the shareholders a final dividend for the financial year 2016, at the amount of USD 3,092 thousand (USD 0.175 per share, paid on July 19, 2017).

Note 5 - Earnings Per Share

Basic earnings per share

	For the six months ended June 30		Year ended December 31
	2018	**2017**	**2017**
	$ thousands	**$ thousands**	**$ thousands**
	(Unaudited)	**(Unaudited)**	**(Audited)**
Profit for the year ($ thousands)	**5,195**	1,949	5,544
Issued ordinary shares (in thousands of shares)	**17,671**	17,671	17,671
Basic earnings per ordinary share (in US$)	**0.29**	0.11	0.31

Note 6 - Subsequent Events

Payton Planar Magnetics' ("Payton") Board of Directors approved, on August 16, 2018, a share purchase agreement with a Hong-Kong holding company having a fully owned manufacturing subsidiary in Dongguan, China, which currently serves as one of Payton's major Manufacturing Partner. The planned strategic investment, at the amount of USD 1 million, will grant Payton 20% of the rights in the parent Hong-Kong holding company and proportional representation on its board. An option to increase Payton's share up to 35% of the rights in the parent Hong-Kong holding company was also agreed. The closing, planned for October 2018, is subject to the fulfilment of several conditions, including signing a shareholder agreement between Payton and the Hong-Kong holding company.