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Half-year 2018 Report[1]

Sales Revenues of USD 22,056 thousand; Net Profit of USD 5,195 thousand; Order Backlog as of June 30, 2018 totaled USD 25,305 thousand.

Ness-Ziona (Israel) - Payton Planar Magnetics Ltd. today announced its financial results for the first half-year of 2018 (six-month period ending June 30, 2018).
Sales revenues for the first six months of 2018 totaled USD 22,056 thousand compared to USD 14,370 thousand in the six-month period ended June 30, 2017. Net profit for the first six months of 2018 totaled USD 5,195 thousand compared to USD 1,949 thousand in the six-month period that ended on June 30, 2017.

The Group's order backlog as of June 30, 2018 totaled USD 25,305 thousand (December 31, 2017 - USD 16,796 thousand).

Key financial highlights for the first half-year of 2018

Sales revenues

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 that ended on June 30, 2017. The sales increase resulted mainly from an increase in the volume of existing projects.

Cost of sales and gross result

The Group's gross profit for the six-month period that ended on 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 that ended on 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.

Expenses

During the first half-year that ended on June 30, 2018, The Group's *Development Costs* were USD 719 thousand compared with USD 613 thousand in the same period last year (2017). The increase is mainly explained by an increase in development team labor costs also as result of local currency revaluation.

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 that ended on June 30, 2018 were USD 1,150 thousand (5%) and USD 1,156 thousand (8%) in the six-month period that ended

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[1] The 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.

on 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.
The Group's *General & Administrative expenses* for the six months that ended on 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.

Operating and financial result

The total operating income for the first half-year of 2018 amounted to USD 6,156 thousand compared to USD 2,335 thousand the same period last year. During the first six months of 2018, Payton recorded a net finance income of USD 97 thousand, compared to a net finance income of USD 146 thousand for the first six months of 2017.

Income taxes

Tax expenses for the first six months of 2018 totaled USD 1,058 thousand, compared to USD 532 thousand for the six-month period that ended on June 30, 2017.

Result of the period

The total result for the first half-year of 2018 was a net profit of USD 5,195 thousand, compared to USD 1,949 thousand for the six-month period ended June 30, 2017.

Balance sheet - cash position

Cash and cash equivalents and Short-term Deposits 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 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 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.

Cash flow

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.*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.*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.

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Outlook

- *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 June 30, 2018,* the Group's *order backlog* totaled USD 25,305 thousand (compared to the position on December 31, 2017 where the backlog totaled USD 16,796 thousand). The backlog is composed of firm orders only. Payton's management estimates that most of the backlog as of June 30, 2018 will be supplied until June 30, 2019.
- *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.

The complete financial statements and the half-year report are available for downloading in the investors section of www.paytongroup.com.

For more information, please visit Payton's web site at www.paytongroup.com
or contact Michal Lichtenstein, CFO at +972-3-9611164 -Michal@paytongroup.com
or Tobias Van Assche, Senior Manager at Citigate Dewe Rogerson Belgium + 32 (0) 475 53 94 05 -Tobias.VanAssche@citigatedewerogerson.com

About us

Payton Planar Magnetics Ltd., an Israeli-based high-tech company, designs, manufactures and markets Planetics®, its customized line of planar transformers, conventional transformers and inductors to Original Equipment Manufacturers and their suppliers of power electronics. The group currently employs about 200 people (including executive officers). Planar Magnetic Components are used in end products in various industries, including telecommunications, automotive, cellular infrastructure, Military/Avionics, portable equipment and consumer goods. Planar Magnetics is a revolutionary design technology that is superior to conventional transformers and inductors, and has already been accepted by electronics design engineers as the state-of-the-art in high frequency power electronics design. Payton Planar Magnetics is a subsidiary of Payton Industries, headquartered in Israel, and has manufacturing and marketing operations in Israel, U.K. and United States. Payton Planar Magnetics is publicly traded on the Euronext stock exchange in Brussels (ticker: PAY).

Annex: Selected Financial Statements

Note:

This press release 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 event. Management emphasize 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.

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Key financial figures – Payton Planar Magnetics Ltd.

Condensed Interim Consolidated Statements of Comprehensive Income

- unaudited -

	Six months ended June 30	
	2018	*2017
	USD 000	USD 000
Sales revenues	**22,056**	14,370
Cost of sales	**(12,281)**	(8,774)
Gross profit	**9,775**	5,596
Development costs	**(719)**	(613)
Selling and marketing expenses	**(1,150)**	(1,156)
General and administrative expenses	**(1,757)**	(1,492)
Other income, net	**7**	-
Operating profit	**6,156**	2,335
Financial income	**186**	176
Financial expenses	**(89)**	(30)
Financial income, net	**97**	146
Profit before income taxes	**6,253**	2,481
Income taxes	**(1,058)**	(532)
Profit for the period	**5,195**	1,949
Other comprehensive income items that will not be transferred to profit and loss		
Remeasurement of defined benefit plan, net of taxes	**-**	-
Total comprehensive income for the period	**5,195**	1,949
Number of shares	**17,670,775**	17,670,775
Basic earnings per share (in USD)	**0.29**	0.11

Condensed Interim Consolidated Statement of Financial Position

- unaudited -

	June 30	
	USD 000	USD 000
	2018	*2017
Current assets	**38,944**	33,477
Non-current assets	**11,579**	11,825
Total assets	**50,523**	45,302
Current liabilities	**7,371**	8,274
Non-current liabilities	**1,450**	1,108
Equity	**41,702**	35,920
Total liabilities and Equity	**50,523**	45,302

* 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.

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Condensed Interim Consolidated Statements of Cash Flows

Six-month period ended June 30 - unaudited **$ thousands**	**2018**	*2017
Operating activities		
Profit for the period	**5,195**	1,949
Adjustments to reconcile profit to net cash generated from operating activities:		
Depreciation & amortization	**448**	467
Income taxes	**1,058**	532
Capital gain on sale of fixed assets	**(7)**	-
Increase in employee benefits	**25**	160
(Increase) decrease in trade accounts receivables	**(947)**	3,180
(Increase) decrease in other accounts receivable	**(824)**	213
Decrease (increase) in inventory	**(806)**	(92)
(Decrease) increase in trade payables	**1,201**	(1,080)
Increase (decrease) in other payables	**247**	(192)
Tax paid	**(994)**	(290)
Finance (income) expenses, net	**(142)**	(152)
Interest received	**148**	40
Interest paid	**(24)**	-
Cash flows generated from operating activities	**4,578**	4,735
Investing activities		
Proceeds from (Investments in) deposits, net	**3,156**	(4,246)
Investment in fixed assets	**(343)**	(262)
Proceeds from sale of fixed assets	**10**	-
Cash flows (used for) generated from investing activities	**2,823**	(4,508)
Financing activities		
Payment of contingent consideration	**-**	(24)
Dividend paid	**(3,092)**	-
Cash flows used for financing activities	**(3,092)**	(24)
Net increase in cash and cash equivalents	**4,309**	203
Cash and cash equivalents at beginning of the period	**5,089**	8,150
Effect of exchange rate fluctuations on cash held	**(20)**	28
Cash and cash equivalents at end of the period	**9,378**	8,381

* 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.