E L E C T R A CONSUMER PRODUCTS (1970) L I M I T E D

Consolidated Financial Statements

As at December 31, 2015

C o n t e n t s

DIRECTORS' REPORT ON THE STATE OF THE COMPANY'S AFFAIRS FOR THE YEAR ENDED DECEMBER 31, 2015

The Board of Directors of Electra Consumer Products (1970) Ltd. is pleased to present the report of the Board of Directors on the state of the company's business and of its consolidated companies for the year ended December 31, 2015

1. General

1.1 Description of the Group's business

The Group operates in three fields of operations, which are also reported as operating segments in the financial statements, as described in the following details: **The first** field - the manufacturing, importing, exporting, marketing, sale and distribution of electrical consumer products, and the provision of services for products ("**The electrical consumer products segment**"); **the second** - the operation of retail marketing chains for the sale of electrical consumer products in Israel ("**The retail segment**"); and **the third** – "Do It Yourself" – the operation of retails chains specializing in the provision of home design and maintenance solutions and in the vehicles field ("**The Do It Yourself Segment**").

1.2 Description of the business environment and the trends in the Company's business

A. The year 2015 was characterized by the continuation of the implementation of the Company's re-organization program in accordance with the program that was approved at a meeting of the Company's Board of Directors on December 28, 2014. The activity that was performed in the period included inter alia:

1. A change in connection with the Company's management structure.
2. The closure of loss-making branches.
3. The re-examination of the rental agreements for the Company's branches in the "Electrical Retail" segment and in the "Do It Yourself" segment.
4. The launching of the electronic trading site.
5. Work on the implementation of a change in the Company's logistics model, with the objective of building a central alignment for the operation of the supply chain – see Section 1 below.
6. A change in the business model for the Company's foreign operations in the air-conditioning field.
7. The execution of the efficiency program in connection with the reduction of the size of the Company's workforce.

B. On September 2, 2015, the Company's Board of Directors approved the expansion of the efficiency program in the Company, within the context of which additional processes will be undertaken to increase efficiency, including, but not only, an additional reduction in the number of the Company's branches and/or the conversion of branches between the retail chains that the Company operates (including between the retail segment and the Do It Yourself" segment), following the re-examination of the rental agreements for the Company's branches.

As a result of the implementation of the efficiency program, the Company recorded net, pre-tax expenses in respect of a structural change in an amount of US$ 2.56 million as a separate item in the operating income.

C. On October 25, 2015, Electra Consumer Products (1951) Ltd., a subsidiary company that is wholly owned and controlled by the Company (hereinafter: "**The subsidiary** company"), completed the acquisition of the balance of the shares (50%) of Electra Communications Ltd. (formerly - Bars Electra Cellular Communications Ltd.).

D. On November 9, 2015, the Company's subsidiary company entered into a commitment under an agreement with Mey Eden Bar – First Class Service Ltd. (hereinafter: "**The purchaser**"), for the sale of its operations in the field of water bars. The completion of the transaction is conditional upon the compliance with certain crucial terms, including the approval of the anti-trust director, by March 31, 2016. As at this time, the said conditions have not yet been met.

E. On November 17, 2015, the subsidiary company entered into a commitment under an agreement for the acquisition of additional shares in S.Z. Systems Ltd. (hereinafter: "**S.Z.**"), an affiliated company (50%), from a third party that holds the balance of the shares (50%). On February 4, 2016, the transaction was completed in accordance with its terms and the Company increased its holding rate in S.Z. to 75%.

F. On January 14, 2016, an agreement was signed between the subsidiary company and Logisticare Ltd. ("**The supplier**") for the provision of logistical services. In accordance with the terms of the agreement, the supplier will provide the subsidiary company with all of the logistical services that are required in order to distribute the Company's products.

2 The Board of Directors' explanations regarding the state of the Company's business

2.1 The following are the main events that occurred in the reporting period

The year 2015 was typified by an improvement in the Company's results, which found expression in a significant increase in the Company's profits, including an improvement in the gross profit rate and improved efficiency in the operating expenses, which was as a result of the implementation of the re-organization program, which was announced at the end of 2014 – see Section 1.2 above. The operating income before expenses relating to the structural change amounted to US$ 23,941 thousand, as compared with a loss of US$ 4,757 thousand in 2014. The operating income before expenses relating to the structural change amounted to US$ 5,889 thousand in the fourth quarter of 2015, which was the highest for the past five years.

The improvement in the profitability also found expression in a significant increase in the cash flows from operating activities. The Company's cash flows from operating activities amounted to US$ 28,981 thousand in 2015, as compared with US$ 18,860 thousand in 2014, an improvement of US$ 10,121 thousand.

Furthermore, the Company’s net financial debt has decreased from US$ 38,673 thousand as at December 31, 2014 to US$ 22,979 thousand as at December 31, 2015.

2.2 Financial position

The following are condensed consolidated balance sheet:

	December 31	
	2015	2014
	U.S. Dollars in thousands	
Current assets	230,398	241,070
Non-current assets	103,819	109,239
Total assets	334,217	350,309
Current liabilities	185,127	229,356
Non-current liabilities	36,261	17,138
Equity	112,829	103,815
Total liabilities and equity	334,217	350,309

2.3 The total current assets amounted to US$ 230,398 thousand as at December 31, 2015, as compared with US$ 241,070 thousand as at December 31, 2014. The decrease in the current assets derived primarily from an increase in trade receivables, deriving from an increase in the income in the fourth quarter of 2015, which was offset by a decrease in the balance of inventory as a result of increased efficiency in the electrical retail segments and in the air-conditioning operations.

2.4 The total of non-current assets amounted to US$ 103,819 thousand as at December 31, 2015, as compared with US$ 109,239 thousand as at December 31, 2014. The decrease derived primarily from a decrease in long-term receivable balances as the result of the realization of the receivable balances from the sale of the service operations and from a reduction in deferred tax balances as a result of the exploitation of tax losses brought forward from previous years.

2.5 The total current liabilities amounted to US$ 185,127 thousand as at December 31, 2015, as compared with US$ 229,356 thousand as at December 31, 2014. The decrease derives primarily from a decrease in short-term credit, part of which was replaced by long-term credit and from a decrease in trade payables.

2.6 The non-current liabilities amounted to US$ 36,261 thousand as at December 31, 2015, as compared with US$ 17,138 thousand as at December 31, 2014. The increase derives from the receipt of long-term loans in an amount of US$ 25.6 million, which amounted to US$ 23.1 million as at December 31, 2015, of which the current maturities amount to US$ 5.1 million, which have been recorded under current liabilities.

3. Equity

The equity amounted to US$ 112,829 thousand as at December 31, 2015, as compared with US$ 103,815 thousand as at December 31, 2014. The increase derived primarily from the profit for the year of approximately US$ 12.4 million for the year, which was partially offset by the other comprehensive loss of approximately U$ 4 million.

4. Operating results

4.1 Summary of the business results by years (in US$ thousands)

	For the year ended December 31		
	2015	**2014**	**2013**
Revenues from sales and the provision of services	700,653	684,114	712,967
Cost of sales and services	501,403	503,437	517,683
Gross profit	199,250	180,677	195,284
Selling and marketing expenses	166,033	177,130	170,788
Administrative and general expenses	11,193	9,273	10,617
Other income, net	1,917	969	832
Operating income (loss) before expenses relating to a structural change	23,941	(4,757)	14,711
Expenses relating to a structural change	(2,613)	(10,760)	-
Operating income (loss)	21,328	(15,517)	14,711
Financing income	496	870	2,359
Financing expenses	(4,624)	(5,633)	(5,819)
Company's share of the (profits) losses of companies treated at equity	331	(147)	(471)
Income (loss) before taxes on income	17,531	(20,427)	10,780
Taxes on income (tax benefit)	(5,112)	3,601	(1,759)
Net income (loss)	12,419	(16,826)	9,021

4.2 Revenues

The Group's revenues amounted to US$ 700,653 thousand in the year 2015, as compared with US$ 684,114 thousand in the comparative period in the previous year, an increase of 2.4%. The increase derived primarily as a result of an increase of approximately 3% in the electrical consumer products segment primarily in the air-conditioning operations in Israel and from an increase of approximately 2.4% in the retail segment.

4.3 Gross profit

The gross profit rate stood at 28.4% of the sales turnover in 2015, as compared with 26.4% in the comparative period in the previous year, constituting an improvement of 2%.

The gross profit in the reporting period amounted to US$ 199,250 thousand, as compared with UA$ 180,677 thousand in the comparative period in the previous year, an increase of approximately 10.3%.

The increase in the gross profit and in the gross profit rate derives primarily from an improvement in the commercial conditions in the air-conditioning operations, the consolidation of the procurement activities of the chains in the retail segment as well as from an improvement in the commercial terms with suppliers and concession holders in the "Do it Yourself" segment.

4.4 Selling and marketing expenses

Selling and marketing expenses in the year 2015 amounted to US$ 166,033 thousand (23.7% of the sales turnover), as compared with US$ 177,130 thousand (25.9% of the sales turnover) in the comparative period in the previous year. The decrease derived primarily from a reduction in expenses in the air-conditioning operations overseas as a result of the re-organization program (see Section 1.2 above) as well as from a decrease in the rental expenses and in other operating expenses in the retail and Do It Yourself segments, as a result of the continuation of the implementation of the re-organization and efficiency program.

4.5 Administrative and general expenses

Administrative and general expenses amounted to US$ 11,193 thousand (1.6% of the sales turnover) in the year 2015, as compared with US$ 9,273 thousand (1.4% of the sales turnover) in the comparative period in the previous year. The increase in the administrative and general expenses derived primarily from an increase in salaries.

4.6 Other income, net

The other income, net amounted to US$ 1,917 thousand in the year 2015, as compared with US$ 969 thousand in the comparative period in the previous year. The other income in the reporting period included a capital gain in an amount of US$ 796 thousand deriving from the increase (from 50% to 100%) in the holding rate in Electra Communications Ltd. and from a deferred gain of US$ 1,121 thousand from the sale of the service operations, which was recognized in the period.

4.7 Operating income (loss) before expenses relating to a structural change

The operating income before expenses relating to a structural change amounted to US$ 23,941 thousand in the year 2015 as compared with a loss of US$ 4,757 thousand in the comparative period in the previous year.

4.8 Expenses relating to a structural change

The expenses relating to a structural change amounted to US$ 2,613 thousand in the year 2015 and included expenses in respect of costs relating to the departure of employees and the closing of branches, see section 1.2 above.

4.9 Operating income (loss)

The operating income after expenses relating to a structural change amounted to US$ 21,328 thousand in the year 2015, as compared with an operating loss of US$ 15,517 thousand in the comparative period in the previous year.

4.10 Financing income/expenses, net

The financing expenses, net that were incurred by the Group in the year 2015 amounted to US$ 4,128 thousand as compared with financing expenses, net of US$ 4,763 thousand in the comparative period in the previous year. The decrease in the financing expenses derived primarily from a reduction in respect of exchange differences.

4.11 Income (loss) before taxes on income

The income before taxes on income in the year 2015 amounted to US$ 17,531 thousand as compared with loss before taxes on income of US$ 20,427 thousand in 2014.

4.12 Taxes on income

Tax expenses on income amounted to US$ 5,112 thousand in the year 2015, as compared with taxes benefits of US$ 3,601 thousand in the year 2014.

4.13 Net income (loss)

The net income in the year 2015 amounted to US$ 12,419 thousand, as compared with a net loss of US$ 16,826 thousand in the comparative period in the previous year.

4.14 Earnings (loss) before depreciation and amortization, interest and taxes on income (EBITDA)

The EBITDA for the year 2015 amounted to US$ 31,392 thousand, as compared with a loss of US$ 1,377 thousand in the comparative period in the previous year.

4.15 The following table summarizes the business results by quarter (U.S. Dollars in thousands):

	Quarter 10-12/15	Quarter 7-9/15	Quarter 4-6/15	Quarter 1-3/15	Quarter 10-12/14
Revenues from sales and the provision of services	168,764	196,583	171,129	164,177	150,052
Cost of sales and services	120,301	142,625	121,045	117,432	110,754
Gross profit	48,463	53,958	50,084	46,745	39,298
Selling and marketing expenses	40,584	43,022	41,281	41,146	42,706
Administrative and general expenses	3,043	2,884	2,670	2,596	2,073
Other income, net	1,053	270	282	312	344
Operating income (loss) before expenses relating to a structural change	5,889	8,322	6,415	3,315	(5,137)
Expenses relating to a structural change	(1,567)	(992)	(54)	-	(9,255)
Operating income (loss)	4,322	7,330	6,361	3,315	(14,392)
Financing income	104	(998)	527	863	(354)
Financing expenses	(1,027)	(923)	(903)	(1,771)	(894)
Company's share of the profits (losses) of companies treated under the equity method of accounting	(189)	(25)	296	249	(64)
Income (loss) before taxes on income	3,210	5,384	6,281	2,656	(15,704)
Taxes on income (tax benefit)	814	1,663	1,562	1,073	(3,169)
Net income (loss)	2,396	3,721	4,719	1,583	(12,535)

5 The following is an analysis for the fourth quarter of 2015:

5.1 Revenues

The revenues in the fourth quarter of the year 2015 amounted to US$ 168,764 thousand, as compared with US$ 150,052 thousand in the comparative quarter in the previous year an increase of approximately 12.5%, which derived from an increase in revenues in the electrical consumer products segment, primarily from the air-conditioning operations in Israel and abroad, together with an increase in sales in the retail segment (see Section 5.14 below in connection with reporting on the business segments).

5.2 Gross profit

The gross profit rate in the fourth quarter of 2015 stood at 28.7% of the sales turnover, as compared with 26.2% in the comparative period in the previous year, constituting an improvement of 2.5%.

The gross profit in the fourth quarter of 2015 amounted to US$ 48,463 thousand, as compared with US$ 39,298 thousand in the comparative period in the previous year, an increase of approximately 23%.

The increase in the gross profit and in the gross profit rate derived primarily from an improvement in the commercial conditions in the air-conditioners field, as well as from an improvement in the commercial terms with suppliers and concession holders in the "Do it Yourself" segment.

5.3 Selling and marketing expenses

Selling and marketing expenses in the fourth quarter of 2015 amounted to US$ 40,584 thousand (24% of the sales turnover), as compared with US$ 42,706 thousand (28.5% of the sales turnover) in the comparative quarter in the previous year. The decrease derives primarily from the implementation of the re-organization program (see section 1.2 above), as well as from a decrease in the rental costs and in the operating costs in the retail and "Do it Yourself" operating segments.

5.4 Administrative and general expenses

Advertising and general expenses in the fourth quarter of the year 2015 amounted to US$ 3,043 thousand (1.8% of the sales turnover), as compared with US$ 2,073 thousand (1.4% of the sales turnover) in the comparative quarter in the previous year. The increase in the administrative and general expenses derives primarily from an increase in salary expenses.

5.5 Other income, net

Other income, net in the fourth quarter of the year 2015 amounted to US$ 1,053 thousand. The other income in the reporting period included a capital gain in an amount of US$ 796 thousand deriving from the increase (from 50% to 100%) in the holding rate in Electra Communications Ltd. and from a deferred gain of US$ 257 thousand from the sale of the service operations, which was recognized in the period.

5.6 Operating income (loss) before expenses relating to a structural change

The operating income before expenses relating to a structural change in the fourth quarter of 2015 amounted to US$ 5,889 thousand as compared with operating loss of US$ 5,137 thousand in the comparative quarter in the previous year.

5.7 Expenses relating to a structural change

The expenses relating to a structural change amounted to US$ 1,567 thousand in the fourth quarter of the year 2015.

5.8 Operating income (loss)

The operating income in the fourth quarter of 2015 amounted to US$ 4,322 thousand as compared with an operating loss of US$ 14,392 thousand in the comparative quarter in the previous year.

5.9 Financing expenses, net

The financing expenses, net in the fourth quarter of 2015 amounted to US$ 923 thousand as compared with financing expenses, net of US$ 1,248 thousand in the comparative quarter in the previous year. The decrease in the financing expenses derives primarily from a decrease in expenses in respect of exchange differences.

5.10 Income (loss) before taxes on income

The income before taxes on income in the fourth quarter of 2015 amounted to US$ 3,210 thousand, as compared with a loss before taxes of US$ 15,704 thousand in the comparative quarter in the previous year.

5.11 Taxes on income (tax benefit)

Taxes on income amounted to US$ 814 thousand in the fourth quarter of the year 2015 as compared with a tax benefit of US$ 3,169 thousand in the comparative quarter in the previous year.

5.12 Net income (loss)

The net income in the in the fourth quarter of 2015 amounted to US$ 2,396 thousand, as compared with a net loss of US$ 12,535 thousand in the comparative quarter in the previous year.

5.13 Earnings (loss) before depreciation and amortization, interest and taxes on income

The EBITDA for the fourth quarter of the year 2015 amounted to US$ 7,075 thousand, as compared with a loss of US$ 7,039 thousand in the comparative period in the previous year.

5.14 Report in respect of business segments

	For the period ended December 31			
	2015	2014	Percentage change (*)	2013
	US$ thousands			
Revenues				
Electrical consumer products	309,309	300,352	3%	360,292
Retail operations	302,661	295,681	2.4%	280,773
"Do it yourself"	139,959	142,518	(1.8%)	144,215
Adjustments and other items	(51,276)	(54,437)	-	(72,313)
Total	700,653	684,114	2.4%	712,967

	For the period ended December 31			
	2015	2014	Percentage change (*)	2013
	US$ thousands			
Segmental income				
Electrical consumer products	22,820	1,969	1,059%	15,117
Retail operations	4,948	1,358	264%	1,977
"Do it yourself"	5,608	448	1,152%	6,531
Adjustments and other items	1,758	740	137%	1,703
Total Segmental income	35,134	4,515	670%	25,328
Unallocated joint expenses	11,193	9,272	-	10,617
Expenses in respect of a structural change	2,613	10,760	-	-
Operating income (loss)	21,328	(15,517)	-	14,711

(*) The percentage change has been calculated in accordance with the ratio between the results for 2015 and the results for 2014.

5.15 Explanation regarding the developments in the data that appear in the table

(1) Electrical consumer products segment

The revenues turnover in the reporting period amounted to US$ 309,309 thousand, as compared with an amount of US$ 300,352 thousand in the comparative period in the previous year, constituting an increase of 3%. The increase derived primarily from air-conditioner operations in Israel, which was offset by a decrease in the sales turnover in the air-conditioner operations abroad and in the trading in brands.

The segmental income in the reporting period amounted to US$ 22,820 thousand, as compared with an amount of US$ 1,969 thousand in the comparative period in the previous year. The increase in the segmental income derived from an improvement in the profitability as a result of the improvement in the commercial terms in the air-conditioner field and from a reduction in the expenses of the air-conditioner operations overseas, as a result of the efficiency program and from the fact that in the comparative period in the previous year the Company recorded an expense in respect of a provision for doubtful debts in an amount of US$ 3.46 million.

The revenues turnover in the fourth quarter of 2015 amounted to US$ 72,926 thousand, as compared with an amount of US$ 53,943 thousand in the comparative period in the previous year, reflecting an increase of 35%. The increase derived from air-conditioner operations in Israel and abroad, trading in brands including the initial consolidation of Electra Communications Ltd.'s operations.

The segmental income in the fourth quarter of 2015 amounted to US$ 6,829 thousand, as compared with loss of an amount of US$ 2,058 thousand in the comparative period in the previous year. The increase in the segmental income derived primarily from an improvement in the profitability as a result of an improvement in the commercial terms in the air-conditioner field and from a reduction in the expenses of the air-conditioner operations overseas, as a result of the efficiency program.

(2) The electrical retail segment

The revenues turnover in the reporting period amounted to US$ 302,661 thousand, as compared with an amount of US$ 295,681 thousand in the comparative period in the previous year, reflecting an increase of approximately 2.4%. The same store sales in the segment, which operated fully in the reporting period and in the comparative period in the previous year, increased by approximately 6.1%. Sales per square meter in same stores amounted to a monthly average of US$ 706 per square meter as compared with US$ 667 per square meter in the comparative period in the previous year.

The segmental income in the reporting period amounted to US$ 4,948 thousand, as compared with US$ 1,358 thousand in the comparative period in the previous year. The increase in the segmental profitability derived from an improvement in the gross profitability as a result of an improvement in the commercial terms with suppliers, and as a result of the implementation of a re-organization process in the segment.

The revenues turnover in the fourth quarter of 2015 amounted to US$ 75,483 thousand, as compared with an amount of US$ 72,275 thousand in the comparative period in the previous year, constituting an increase of approximately 4%. The same store sales in the segment, which operated fully in the fourth quarter of 2015 and in the comparative period in the previous year, increased by approximately 9%. Sales per square meter in same stores amounted to a monthly average of US$ 720 per square meter in the quarter as compared with US$ 660 per square meter in the comparative period in the previous year.

The segmental income in the fourth quarter of 2015 amounted to US$ 289 thousand, as compared with loss of an amount of US$ 177 thousand in the comparative period in the previous year.

(3) The "Do It Yourself" segment

The revenues turnover in the reporting period amounted to US$ 139,959 thousand, as compared with an amount of US$ 142,518 thousand in the comparative period in the previous year, showing a decrease of approximately 1.8%. The same store sales in the segment, which operated fully in the reporting period and in the comparative period in the previous year, increased by approximately 3.1%. Sales per square meter in same stores amounted to a monthly average of US$ 197 per square meter as compared with US$ 190 per square meter in the comparative period in the previous year.

The segmental income in the reporting period amounted to US$ 5,608 thousand, as compared with an amount of US$ 448 thousand in the comparative period in the previous year. The increase in the segmental profitability derived from an improvement in the gross profitability as a result of an improvement in the commercial terms with suppliers and concession holders and from a reduction in the operating costs as a result of the efficiency program, which started in the second half of 2014.

The revenues turnover in the fourth quarter of 2015 amounted to US$ 31,856 thousand, as compared with an amount of US$ 34,047 thousand in the comparative period in the previous year, reflecting a decrease of approximately 6%. The same store sales in the segment, which operated fully in the fourth quarter of 2015 and in the comparative period in the previous year, decreased by approximately 0.9%. Sales per square meter in same stores amounted to a monthly average of US$ 183 per square meter in the quarter as compared with US$ 182 per square meter in the comparative period in the previous year.

The segmental income in the fourth quarter of 2015 amounted to US$ 914 thousand, as compared with a loss of US$ 630 thousand in the comparative period in the previous year.

6. Liquidity and sources of finance

The Company's operations are financed from its equity and from the credit that it receives from banks, for both the long-term and also for the short-term and from the discounting of credit card receipts.

7. The distribution of the sources of finance

The following are the abbreviated cash flows:

	For the year ended December 31		
	2015	2014	2013
	US$ thousands		
Cash generated (absorbed) by			
Operating activities	28,981	18,860	7,979
Investment activities	(12,383)	(16,935)	(20,229)
Financing activities	(17,272)	(2,753)	2,685
Exchange differences in respect of cash balances	(56)	(36)	(329)
Increase (decrease) in cash and cash equivalents	(730)	(864)	(9,894)

7.1 The average extent of credit extended to customers and credit received from suppliers in the years 2014 and 2015

	The average extent of the customers' balances	
	US$ thousands	
	2015	2014
The first segment	86,501	90,960
The second segment	11,001	15,684
The third segment	6,105	6,484

	The average extent of the suppliers' balances	
	US$ thousands	
	2015	2014
The first segment	43,701	32,080
The second segment	49,316	67,945
The third segment	36,300	37,935

7.2 Cash flows from operating activities

The net cash generated by operating activities amounted to US$ 28,981 thousand in the year 2015, as compared with an amount of US$ 18,860 thousand in the comparative period in the previous year. The increase in the cash flows from operating activities in the year as compared to the previous year, derived primarily from the profit for the period.

7.3 Cash flows from investment activities

The net cash absorbed by investment activities amounted to US$ 12,383 thousand in 2015, as compared with US$ 16,935 thousand in the comparative period in the previous year. The investment in 2015 derived primarily from the investment in fixed and other assets as well as from a payment for the acquisition of the balance of the shares in Electra Communications Ltd.

7.4 Cash flows from financing activities

The net cash absorbed by financing activities amounted to US$ 17,272 thousand in 2015, as compared with US$ 2,753 thousand in the comparative period in the previous year. The cash activities in the reporting period included the replacement of short-term credit with long-term loans from banking entities, see Section 2.1.5 above

8. Exposure to market risks and the ways in which they are managed

8.1 The persons in the Company who are responsible for the management of market risks

The management of the Company's market risks is carried out by the Company's Deputy Chief Executive Officer, with responsibility for financial matters, Mr. Doron Sela, who routinely consults with the members of the Group's management and with the management of Elco Ltd. For details in respect of his education, his skills and his experience, see Section 23 in Part D of the periodic report.

8.2 Description of the market risks

For details in respect of the Company's macro-economic environment and their impact on the Company's operations, see section 6 of Part A of the report. For details in respect of the risk factors to which the Company is exposed, see section 23 of Part A of the report.

The Company's main exposure is to changes in the exchange rates, the risk involved in changes in the exchange rates has been rated by the Company as an intermediate risk since it hedges this risk by the use of a range of financial instruments that are available in the market place. Furthermore, in the event that there are extreme fluctuations the Group does have the possibility of adjusting the selling price of its products.

8.3 The Company's policy on the management of market risks

The Group's operations expose it to risks that are connected to various financial instruments, such as: currency risk, credit risk and cash flows risk in respect of the interest rates. The market risks management is directed at economic exposure. The Group's risks management program focuses on activities to minimize the possible adverse impacts on the Group's financial performance. In some of the cases, the Group uses derivative financial instruments in order to hedge certain exposures to risks.

The Group monitors the market risks through the Company's management, the Chief Executive Officer and the Chief Financial Officer, who report to the Company's Board of Directors and by means of routine consultations.

8.4 The supervision of the risks management program and the manner in which it is implemented

The management of the risks is carried out by the Group's managements in accordance with their fields of activity and the risks that are connected to the financial instruments in the companies. Within the framework of the overall management of risks in the Group, the companies in the Group examine activity in the derivatives markets, in order to hedge against exchange rate risks.

The Group makes use of financial instruments, including derivative instruments, in order to reduce the exposure to those risks. The Group issues or holds derivatives, inter alia, for hedging purposes.

9. Sensitivity analysis for sensitive instruments in accordance with changes in market factors

The Group makes use of the services of an external consultant – Ageo – Risks Management and Financial Decisions Ltd.

10. Aspects of corporate governance

10.1 Directors having accounting and financial expertise

Taking into account the academic background, the business experience, the skills and the knowledge in the past and present of the members of the Board of Directors, the business and accounting issues involved and the issues relating to the financial statements, the members of the Board of Directors, who the Company sees as being directors having accounting and financial expertise are: Ms. Shulamit Eshbol (external director), Mr. Daniel Salkind, Mr. Avi Israeli and Mr. Ronen Israel. For details regarding the skills and the business experience of the said directors in accordance with the provisions of Regulation 26 of the Periodic and Immediate Reports Regulations, see Chapter D of the report.

For details in respect of the minimum number of directors having accounting and financial expertise, which the Board of Directors sees as appropriate for the Company see the Corporate Governance Questionnaire, which is attached as Part E of the report.

10.2 Independent directors

For details regarding the Company's independent directors, see the Corporate Governance Questionnaire, which is attached as Part E of the report.

11. Discussion and examination of the remuneration of interested parties and senior office holders

11.1 On February 6, 2014, the Company's remuneration policy was approved for the first time by a general meeting of its shareholders, after the policy had been recommended by the Company's Remuneration Committee and approved by the Company's Board of Directors (see the Immediate Report of February 6, 2014 (Document Number: 2014-01-033742) and which is presented here by way of the referral). On October 27, 2014, the general meeting approved the updating of the remuneration policy, see the immediate reports dated October 6, 2014 (document No. 2014-01-171795) and dated October 27, 2014 (document No. 2014-01-181830), and on February 16, 2015, the Company's Remunerations Committee and Board of Directors approved an additional updating of the remunerations policy, which was approved at the general meeting on March 30, 2015 (see the immediate report dated March 16, 2015, Document No. 2015-01-053203, which is presented here by way of the referral). The Company's remuneration policy, which was prepared in accordance with the provisions of Amendment 20 to the Companies Law – 1999 ("The Companies Law"), determines fixed and variable components of salary for the Chairman of the Company's Board of Directors (within the framework of management fees for the controlling interest in the Company) for the Company's Chief Executive Officer, for the Company's Deputy Chief Executive Officer, for the Vice Chief Executive Officers in the Company as well as remuneration for the Board of Directors.

11.2 A few days before it was convened, details that are stated in Regulation 21 regarding the contracts of employment/ management agreements with each of the interested parties and senior office holders in the Group, who appear in Regulation 21 and also in relation to the office holders who appear in the Regulations and who are not subject to the Company's remuneration policy, together with comparative details on the remuneration of office holders in companies with a similar market value to that of the Company in accordance with the average market value in the five quarters ending on December 31, 2015.

11.3 A discussion was held at the Board of Directors on the terms of employment of each of the interested parties and senior office holders in the Group, who are detailed separately in Regulation 21. This included the separate examination of the terms of employment of the interested parties and the office holders who are subject to the remuneration policy and to the provisions of the remuneration policy. In relation to the officers and the other interested parties (who are not subject to the remuneration policy), their fields of responsibility and their activities were presented and figures were presented of their results by comparison with the results of the Group's operations, in cases where it is possible to quantify the results of the Group's operations, in cases in which it is possible and appropriate to make a connection between the operating results and the fields of responsibility of the said officers. In addition, in relation to officers who appear in Regulation 21, who are not subject to what is stated in the remunerations policies, as aforesaid, comparative data were presented to the meeting in respect of the remuneration of senior officers in parallel positions, in companies with a similar market value to that of the Company in accordance with the average market value in the five quarters ending on December 31, 2015.

11.4 In reliance on all of the information that was presented to it, the Board of Directors held a discussion on the connection between the amounts of the remuneration that have been provided to each of the office holders who are enumerated in Regulation 21 in the reporting period, and their contribution to the Group in this period.

11.5 In relation to office holders who are enumerated in Regulation 21, who are subject to the remuneration policy, the Company's Board of Directors has found that their remuneration accords with the remuneration policy. In relation to each of the other office holders, whose remuneration exceeds the remuneration policy or who are not subject to the remunerations policy, the Company's Board of Directors found that the consideration that was provided for them is fair and reasonable and reflects their contribution to the Group in the year 2015.

12. Abbreviated explanations by the Board of Directors

12.1 Mr. Yagil White

For details in respect of the remuneration that was provided to Mr. Yagil White in respect of the year 2015, see Regulation 21 in Chapter D of the report.

Comparative details in respect of the remuneration of office holders in parallel positions to that of Mr. White in companies with a similar market value to that of the Company, in accordance with the average market value in the five quarters ending on December 31, 2015, were discussed in the meeting of the Board of Directors.

It was noted at the meeting of the Board of Directors that Mr. White's fields of activity and responsibility are of great significance for the Company, since the "Electra" brand in the air conditioning field, which he is responsible for, determines, to a very large extent, the positioning of the Company whose name is borne by the brand.

Furthermore, within the framework of the organizational change that the company has been though, Mr. White also received responsibility for the Company's plant, its service array and its international operations overseas. It was noted that his contribution to the activities in his field of responsibility is considerable, and that among the processes that he led in 2015 one can count the increase in the volume of the air-conditioner operations, the development of new product lines and the increase in the Company's market share in the air-conditioners' field. In the evaluation of the Company's Board of Directors, in the light of what was stated at the meeting and bearing in mind, inter alia, the results of the Company's operations, his actions and the comparative figures that were presented, the remuneration that was provided to Mr. Yagil White in the year 2015 was fair and reasonable**.**

12.2 Mr. Shmuel Mandzitzki

For details in respect of the remuneration that was provided to Mr. Shmuel Mandzitzki in respect of the year 2015, see Regulation 21 in Chapter D of the report.

Comparative details in respect of the remuneration of office holders in parallel positions to that of Mr. Mandzitzki in companies with a similar market value to that of the Company, in accordance with the average market value in the five quarters ending on December 31, 2015, were discussed in the meeting of the Board of Directors.

It was noted at the meeting of the Board of Directors that Mr. Mandzitzki is a very experienced manager in the electricity sector, who was appointed in December 2014 as the joint CEO in the Company's retail segment (up to that time he serves as the joint CEO of the Machesney Chasmal chain alone), and as from that time, he has been the jointly managed that segment professionally, whilst consolidating the head offices of the "Shekem Electric" and "Machesney Chasmal" chains (hereinafter: "**The chains**"), whilst leading and implementing the re-organization plan that the Company announced, supporting and developing the sales staff array, the launching of the electronic trading web set, the setting of targets and the activity to solidify the branding of the chains. In the evaluation of the Company's Board of Directors, in the light of Mr. Mandzitzki's success in increasing the segment's profits, including his contribution to maximizing the Company's profits, the remuneration that was provided to Mr. Mandzitzki in the year 2015 was fair and reasonable**.**

12.3 Mr. Yoram Badash

For details in respect of the remuneration that was provided to Mr. Yoram Badash in respect of the year 2015, see Regulation 21 in Chapter D of the report.

Comparative details in respect of the remuneration of office holders in parallel positions to that of Mr. Badash in companies with a similar market value to that of the Company, in accordance with the average market value in the five quarters ending on December 31, 2015, were discussed in the meeting of the Board of Directors.

It was noted at the meeting of the Board of Directors that Mr. Badash is a very experienced manager in the electricity sector, who was appointed in December 2014 as the joint CEO in the Company's retail segment (up to that time he serves as the joint CEO of the Machesney Chasmal chain alone), and as from that time, he has been the jointly managed that segment professionally, whilst consolidating the head offices of the "Shekem Electric" and "Machesney Chasmal" chains (hereinafter: "**The chains**"), whilst leading and implementing the re-organization plan that the Company announced, supporting and developing the sales staff array, the launching of the electronic trading web set, the setting of targets and the activity to solidify the branding of the chains. In the evaluation of the Company's Board of Directors, in the light of Mr. Badash success in increasing the segment's profits, including his contribution to maximizing the Company’s profits, the remuneration that was provided to Mr. Badash in the year 2015 was fair and reasonable**.**

12.4 Elco Holdings Ltd. – the controlling interest in the Company

The Company’s Board of Directors examined and found that the management fees for Elco Ltd. in respect of the services of the Chairman of the Board of Directors accord with the Company’s remuneration policy. In relation to the other payments to Elco, they accord with the decision by the general meeting and they reflect an appropriate consideration for the management services that are made available by Elco by means of its most senior officers, who contribute their experience, their knowledge and their talents to the Company. See also the reasoning of the Remunerations Committee and the Board of Directors for the management agreement and for the consideration therefore, within the framework of which, as published in the immediate report for the calling of a general meeting for the approval of the management agreement (the Company's immediate report dated March 16, 2015 (Document No. 2015-01-053203) which is presented here by way of the referral.

12.5 The Company's Chief Executive Officer

The Company’s Board of Directors examined and found that the payments to the Company's Chief Executive Officer accord with the remuneration policy (in this connection, it should be mentioned that following the approval of the signing on grant for the Company's Chief Executive Officer within the framework of the approval of the Chief Executive Officer's employment agreement by the Company’s general meeting, for the reasoning that was approved by the Remunerations Committee (see the Company's immediate report dated March 16, 2015 (Document No. 2015-01-053203), which is presented here by way of the reference) and this as an exception to the remunerations policy, the remunerations policy was updated in order to include the possibility of a signing on grant).

12.6 The Company's Deputy Chief Executive Officer

The Company’s Board of Directors examined and found that the payments to the Company's Deputy Chief Executive Officer accord with the remuneration policy.

13. The process of the approval of the financial statements

For details regarding the process of the approval of the Company's financial statements, see the Corporate Governance Questionnaire, which is attached as Part E of the report.

14. The policy on the subject of social responsibility

14.1 As a leader in its field, the Group strives to express social responsibility, which finds expression in the execution of a strategy of donating to the community in which it operates. The activity that it conducts is self-initiated and is based on co-operation in a number of channels and primarily in two leading long-term projects, which relate to a real social need.

14.2 Within the framework of the projects, the Company encourages its employees to partake in ongoing participation, having grasped that voluntary activity is good for the employees and crystallizes and strengthens the connection between the employees and the organization.

14.3 In addition, in 2015 the Company received a gold "Ma'aleh" rating, which rates the performance of the leading companies in the economy in the field of corporate responsibility. The rating is based on detailed criteria in six central fields of corporate responsibility: the environment, business ethics, human rights and the working environment, involvement in the community, corporate governance and social and environmental reporting.

14.4 The channels of activity

(A) The routine donation of electrical consumer products to needy organizations – associations, hospitals, educational institutions, the security forces and so on.

(B) Contacts with suppliers whose operations constitute a contribution to the community – the purchase of gifts from associations and institutions that employ handicapped people, (Beit Issie Shapiro), the holding of training and conferences on the premises of associations and institutions that contribute to the community (The Israeli Guide Dog Center).

(C) Routine volunteer activities by the employees in the leading projects – the adoption of the Na'amat care center for children at risk in Rishon Le'Zion, volunteer activity within the framework of the "good deeds day" and activities with fighting soldiers from the armored brigade that the Group has adopted within the framework of the "Adopt a fighter" project.

(D) The Group strives to promote the subject of social responsibility as an integral part of its general strategic thinking, and to hold activities on a routine basis.

14.5 Donation to the community

In 2015, the Group donated an amount of US$ 68 thousand.

15. Evaluation

The identity of the subject matter of the evaluation:	The recoverable amount of the activities of the Machesney Chasmal chain.
The timing of the evaluation:	December 31, 2015.
The value of the subject matter that was determined in the valuation:	Approximately US$ 85 to 87 million, with an average of US$ 86 million
The identity of the appraiser and details regarding them: Ori Cohen CPA of Cognum Economic Consultancy Ltd. (formerly Itzhak Swary Ltd).	For details of his professional experience and educational background, see the letter preceding the evaluation and the evaluation. The Company has signed on an undertaking to indemnify the appraisers (see the letter preceding the evaluation). No dependency on the Company exists for the appraiser (see the letter preceding the evaluation).
The evaluation model employed by the appraiser:	DCF.
The assumptions in accordance with which the appraiser performed the evaluation:	Permanent growth rate – 1.5% (real) Post tax discount rate – approximately 10% (real) Standard deviation – not relevant.

It should be noted that the conclusion from the evaluation is that no write down is required in respect of the evaluation in the Company's financial statements.

16. Disclosure in respect of the Internal Auditor

16.1 Details in respect of the internal auditor

A. The Chief Internal Auditor in the Company is Mr. Hillel Lavie and he has held office since April 5, 1994.

B. To the best of the Company's knowledge, the Internal Auditor complies with the provisions of section 3 (A) of the Internal Audit Law – 1992 (hereinafter: "The Internal Audit Law").

C. To the best of the Company's knowledge, the Internal Auditor complies with the provisions of section 146 (B) of the Companies Law and the provisions of section 8 of the Internal Audit Law.

D. To the best of the Company's knowledge, the Internal Auditor is a full time employee of Elco Ltd, performing internal audits for companies in the Group. However, to the best of the Company's assessment, there is nothing in the aforesaid that creates a conflict of interest with his role as the Company's Internal Auditor. Apart from the aforesaid, the Internal Auditor has no significant business connections or other significant connections with the Company, which could create a conflict of interest with his role as Internal Auditor and to the best of the Company's knowledge he does not hold any securities in the Company or in any body that is connected to it. In this section of the Report of the Board of Directors, "Related body" – within the definition of that term in section 1(5) of the Fourth Addition to the Periodic and Immediate Reports Regulations.

E. As aforesaid, the Internal Auditor is not an employee of the Company. The Internal Auditor holds office as the internal auditor of the parent company – Elco Ltd. and its subsidiary companies, including the Company and its subsidiary companies.

16.2 The manner of the appointment of the internal auditor

Mr. Hillel Lavie was appointed as the Company's Internal Auditor in accordance with a decision made by the Company's Audit Committee on April 5, 1994, before the Company became a public company. The appointment was approved against the background of his position as the internal auditor of the Elco Group, as well as his educational background, his skills and the experience that he had gained over many years, and also taking into account the nature of the Company, its size and the scale and the complexity of its operations. See Regulation 26A of Part D of the report for details of the Internal Auditor's educational background.

16.3 The identity of the person to whom the Internal Auditor is subordinated

The person in the organization to whom the internal auditor is subordinated is the Chairman of the Board of Directors.

16.4 The work program

A. The work plan is bi-annual. The work plan for the internal audit function in the Company and in its subsidiary companies is determined, inter alia, in accordance with the following considerations:

The coverage of the main fields of activity, the focuses of risk and exposure that are known to the Internal Auditor and to its management, the potential for savings and increased efficiency, cycles and the performance of repeat audits in order to monitor the correction of weaknesses and the implementation of recommendations. The audit work plan also includes the entities in which the Company has significant holdings.

B. The audit work plan is presented for review and approval by the Chairman of the Company's Board of Directors, the Audit Committee and of the Board of Directors.

C. The Internal Auditor can exercise judgment in diverging from the work program where the need arises.

D. The process of the approval of various significant transactions has been examined.

16.5 The audit of investee entities

The work program also relates to significant entities that are held by the entity. The audit is performed by the Internal Auditor and a team that is subordinated to him professionally and which is guided by him.

16.6 The scale of the activity

The annual audit of the Group is performed by means of an employee of the Company, external providers of services and the Company's Chief Auditor. The following is an estimation of the number of hours worked in 2015:

Estimated scope of the hours worked			
	In the company	**In the company's investee companies**	**Total**
For activities in Israel	200	3,130	3,330
For activities overseas	-	400	400
Total	**200**	**3,530**	**3,730**

Since the audit work plan is set for a period of two years, the actual annual volume of hours varies from year to year.

16.7 The conduct of the audit

In accordance with information that has been provided to the Company's management by the Internal Auditor, the audit conducts in accordance with generally accepted professional standards as stated in section 4 (B) of the Internal Audit Law and the professional guidelines that have been approved and published by the Institute of Internal Auditors in Israel, and as stated in the Companies Law. The Board of Directors has relied on the Internal Auditor's report regarding his compliance with the requirements of the said professional standards.

16.8 Access to information

The Internal auditor is given free, perpetual and unrestricted access to documents and information that are held by the Company and in the entities that it controls, including information systems and financial data, as stated in section 9 of the Internal Audit Law.

16.9 Reports by the Internal Auditor

A. The Internal Auditor routinely presents written reports, from time to time and in accordance with the subject for auditing that are audited during the course of the year. Accordingly, meetings are held in respect of the findings in the appropriate bodies. During the course of the year 2015, three meetings were held, on the following dates: 16.02.2015, 09.08.2015 and on 10.11.2015.

B. The audit reports are presented, inter alia, to the Chairman of the Board of Directors, the Chairman of the Audit Committee, the members of the Audit Committee and the Chief Executive Officer of the Company.

16.10 The evaluation of the activities of the Internal Auditor by the Board of Directors

In the opinion of the Company's Board of Directors, the scale, the nature and the continuity of the Internal Auditor's activities and his work plan are reasonable in the circumstances and they can achieve the internal audit objectives in the Company.

16.11 Remuneration

A. The Internal auditor is a salaried employee of Elco Ltd. and his services are made available to the Company within the framework of the management agreement with it.

B. In the assessment of the Company's Board of Directors, the remuneration of the Internal Auditor through Elco is not a factor that affects his professional judgment.

17. Disclosure on the subject of auditors' fees

The external auditors of the Company and of its material consolidated companies during the years 2014 and 2015 are Kost, Forer, Gabbay & Kasierer, Certified Public Accountants.

2015				2014			
Audit fees (in US$ thousands)		Hours of work		Audit fees (in US$ thousands)		Hours of work	
In respect of audit, tax and ancillary audit services	Other services	In respect of audit, tax and ancillary audit services	Other services	In respect of audit, tax and ancillary audit services	Other services	In respect of audit, tax and ancillary audit services	Other services
572	323	16,791	5,580	647	318	14,412	3,015

The fees for the auditors have been set and approved by the Company's Board of Directors following a discussion by and recommendation from the Audit Committee, after the members of the Audit Committee were convinced in respect of the extent of the hours of work required by the auditors and that the audit fees constitute a fair consideration for the extent of the work. The Company's Board of Directors accepted the recommendations made by the Audit Committee and approved the auditors' fees for the year 2015.

18. Disclosure in respect of critical accounting estimates

When preparing the financial statements, the management is required to make use of estimates, assessments and assumptions, which affect the implementation of the accounting policies and the reported amounts of assets, liabilities, revenues and expenses. The estimates and the assumptions on which they are based are reviewed routinely. Changes in the accounting estimates are reflected in the period in which the change is made in the estimate.

Daniel Salkind
Chairman of the Board of Directors

Ze'ev Kalimi
Chief Executive Officer

Date: February 29, 2016

In this Report of the Board of Directors for the year ended December 31, 2015, the figures in US Dollars are a convenience translation of the amounts originally reported in new Israeli Shekels at the representative exchange rate of the New Israeli Shekel against US Dollar on December 31, 2015 (US$ 1.- = NIS 3.902)

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AUDITORS' REPORT

To the Shareholders of
Electra Consumer Products (1970) Ltd.

Regarding the Audit of Components of Internal Control over Financial Reporting Pursuant to Section 9B(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of internal control over financial reporting of Electra Consumer Products (1970) Ltd. and its subsidiaries (Collectively, "the Company") as of December 31, 2015. These control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting, and for their assessment of the effectiveness of the components of internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting audited by us were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of components of Internal Control over Financial Reporting" and the amendments thereto, (hereinafter "Auditing Standard 104"). These components consist of: (1) entity level controls, including controls over process of the preparation of the financial reporting and general controls for information systems; (2) controls over inventory and purchases of inventory (all of which will hereinafter be called, collectively, "the audited control components").

We conducted our audit in accordance with Auditing Standard 104. That standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did no address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit provides a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting, as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in circumstances, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2015.

We have also audited, in accordance with generally accepted auditing standards in Israel, the consolidated financial statements of the Company as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, and our report dated February 29, 2015, included an unqualified opinion on those financial statements.

Tel-Aviv
February 29, 2016

KOST FORER GABBAY & KASIERER
Certified Public Accountants

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AUDITORS' REPORT TO THE SHAREHOLDERS OF
ELECTRA CONSUMER PRODUCTS (1970) LTD.

We have audited the accompanying consolidated statements of financial position of Electra Consumer Products (1970) Ltd. ("the Company") as of December 31, 2015 and 2014 and the consolidated statements of profit or loss and comprehensive income, changes in equity and cash flows for each of the three years in the period ended on December 31, 2015. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

The attached financial statements in US Dollars are a convenience translation of the statements as prepared in New Israeli Shekels at the rate of exchange of the Shekel into US Dollars prevailing on December 31, 2015 (see Note 2 to the financial statements).

In our opinion, based on our audit, the abovementioned consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2015 and 2014 and their results of their operations, the changes in equity and their cash flows for each of the three years ended on December 31, 2015, and this in accordance with International Financial Reporting Standards (IFRS) and the provisions in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We also audited components of internal control over financial reporting of the Company as of December 31, 2015, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of components of Internal Control over Financial Reporting" and our report, dated February 29, 2016, included an unqualified opinion on the effective maintenance of those components.

Tel-Aviv
February 29, 2016

KOST FORER GABBAY & KASIERER
Certified Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	December 31	
	2015	2014
	U.S. Dollars in thousands	
Current assets		
Cash and cash equivalents	4,369	5,099
Trade receivables	95,556	89,295
Other receivables (including related companies)	10,919	15,899
Inventory	119,554	130,777
	230,398	241,070
Non-current assets		
Trade and other receivables	3,312	5,691
Investments in companies accounted for at equity	2,364	4,678
Fixed assets	35,548	34,910
Goodwill	55,042	54,122
Intangible assets	7,034	5,608
Deferred taxes	519	4,230
	103,819	109,239
	334,217	350,309

The accompanying notes form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	December 31	
	2015	2014
	U.S. Dollars in thousands	
Current liabilities		
Credit from banking entities and others	9,409	43,772
Suppliers and providers of services	117,624	125,837
Other payables	58,094	57,406
Payables for the acquisition and sale of operations	-	2,341
	185,127	229,356
Non-current liabilities		
Loans from banking entities	17,940	-
Other liabilities	12,972	13,618
Employee benefit liabilities	4,651	3,384
Deferred taxes	698	136
	36,261	17,138
Total equity	112,829	103,815
	334,217	350,309

The accompanying notes form an integral part of the Consolidated Financial Statements.

February 29, 2016			
Date of approval of the financial statements	Daniel Salkind Chairman of the Board of Directors	Ze'ev Kalimi Chief Executive Officer	Doron Sela Deputy Chief Executive Officer with responsibility for financial matters

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND COMPREHENSIVE INCOME CONVENIENCE TRANSLATION INTO US DOLLARS

	For the year ended December 31		
	2015	2014	2013
	U.S. Dollars in thousands		
Revenues from sales and the provision of services	700,653	684,114	712,967
Cost of sales and services	501,403	503,437	517,683
Gross profit	199,250	180,677	195,284
Selling and marketing expenses	166,033	177,130	170,788
Administrative and general expenses	11,193	9,273	10,617
Other income, net	1,917	969	832
Operating income (loss) before expenses relating to a structural change	23,941	(4,757)	14,711
Expenses relating to a structural change	(2,613)	(10,760)	-
Operating income (loss)	21,328	(15,517)	14,711
Financing income	496	870	2,359
Financing expenses	(4,624)	(5,633)	(5,819)
Company's share of the profits (losses) of companies accounted for at equity, net	331	(147)	(471)
Income (loss) before taxes on income	17,531	(20,427)	10,780
Tax benefit (taxes on income)	(5,112)	3,601	(1,759)
Net income (loss)	12,419	(16,826)	9,021
Other comprehensive income (loss) (after tax effects)			
Amounts that will never be reclassified to profit or loss:			
Loss on the re-measurement of defined benefit plans	(718)	(73)	(78)
Amounts that will be classified or reclassified to profit or loss, when specific conditions are met:			
Adjustments deriving from the translation of the financial statements of foreign operations	(832)	(169)	(440)
Income (loss) on cash flow hedging transactions	(263)	3,012	(3,342)
Transfer to profit or loss in respect of cash flow hedging transactions	(2,201)	(119)	4,100
Total components that will be classified or reclassified to profit or loss	(3,296)	2,724	318
Total other comprehensive income (loss)	(4,014)	2,651	240
Total comprehensive income (loss)	8,405	(14,175)	9,261

The accompanying notes form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF PROFITS OR LOSS AND COMPREHENSIVE INCOME
CONVENIENCE TRANSLATION INTO US DOLLARS

	For the year ended December 31		
	2015	2014	2013
	U.S. Dollars in thousands (except for per share data)		
Net income (loss) attributable to:			
Shareholders in the Company	12,419	(16,826)	8,932
Non-controlling interests	-	-	89
	12,419	(16,826)	9,021
Total comprehensive income (loss) attributable to:			
Shareholders in the Company	8,405	(14,175)	9,172
Non-controlling interests	-	-	89
	8,405	(14,175)	9,261
Net basic and diluted earnings (loss) per share attributable to shareholders in the company (in U.S. Dollars):			
Net income (loss) per share	0.57	(0.78)	0.41
Weighted average number of shares used in the calculation of the net earnings (loss) per share	21,632,257	21,632,257	21,621,895

The accompanying notes form an integral part of the Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS

	Share capital	Share premium	Treasury shares	Capital reserve on transaction with a controlling interests	Capital reserve on hedging transactions	Adjustments deriving from the translation of financial statements	Capital reserve on share-based payments	Reserve on the re-measurement of defined benefit plans	Retained earnings	Total equity
	U.S. Dollars in thousands									
Balance at January 1, 2015	18,416	106,495	(1,289)	586	2,464	(832)	1,571	(816)	(22,780)	103,815
Total comprehensive income (loss)	-	-	-	-	(2,464)	(832)	-	(718)	12,419	8,405
Cost of share-based payment	-	-	-	-	-	-	609	-	-	609
Balance at December 31, 2015	18,416	106,495	(1,289)	586	-	(1,664)	2,180	(1,534)	(10,361)	112,829

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS

	Share capital	Share premium	Treasury shares	Capital reserve on transaction with a controlling interests	Capital reserve on hedging transactions	Adjustments deriving from the translation of financial statements	Capital reserve on share-based payments	Reserve on the re-measur-ement of defined benefit plans	Retained earnings	Total equity
	U.S. Dollars in thousands									
Balance at January 1, 2014	18,416	106,495	(1,289)	586	(429)	(663)	1,428	(743)	4,297	128,098
Total comprehensive income (loss)	-	-	-	-	2,893	(169)	-	(73)	(16,826)	(14,175)
Cost of share-based payment	-	-	-	-	-	-	143	-	-	143
Dividend paid	-	-	-	-	-	-	-	-	(10,251)	(10,251)
Balance at December 31, 2014	18,416	106,495	(1,289)	586	2,464	(832)	1,571	(816)	(22,780)	103,815

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS

	Attributable to shareholders in the Company											
	Share capital	Share premium	Treasury shares	Capital reserve on transaction with a controlling interests	Capital reserve on hedging transactions	Adjustments deriving from the translation of financial statements	Capital reserve on share-based payment	Reserve on the re-measur-ement of defined benefit plans	Retained earnings	Total	Non-controlling interests	Total Equity
	U.S. Dollars in thousands											
Balance at January 1, 2013	18,410	105,335	(1,289)	586	(1,187)	(223)	2,396	(665)	3,057	126,420	1,196	127,616
Total comprehensive income (loss)	-	-	-	-	758	(440)	-	(78)	8,932	9,172	89	9,261
Exercise of option warrants	6	1,160	-	-	-	-	(1,166)	-	-	-	-	-
Cost of share-based payment	-	-	-	-	-	-	198	-	-	198	-	198
Dividend paid	-	-	-	-	-	-	-	-	(7,692)	(7,692)	-	(7,692)
Exit from consolidation of consolidated company	-	-	-	-	-	-	-	-	-	-	(1,285)	(1,285)
Balance at December 31, 2013	18,416	106,495	(1,289)	586	(429)	(663)	1,428	(743)	4,297	128,098	-	128,098

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Year ended December 31		
	2015	2014	2013
	U.S. Dollars in thousands		
Cash flows from operating activities			
Net income (loss)	12,419	(16,826)	9,021
Adjustments required to present cash flows from operating activities:			
Adjustments to profit and loss items:			
Depreciation and amortization	10,064	14,140	8,580
Cost of share-based payment	609	143	198
Capital gain on the disposal of fixed assets	-	-	(106)
Capital gain on the sale of operations	-	(1,970)	-
Deferred capital gain on the sale of operations, which was recognized in the period	(1,121)	(1,166)	-
Gain on the re-measurement of an investment in an initially consolidated investee company	(796)	-	-
Gain in the exit from consolidation of a consolidated company	-	-	(445)
The Company's share of the losses of companies accounted for at equity, net	(331)	147	471
Deferred taxes, net	4,475	(4,236)	(1,634)
Change in employee benefit liabilities, net	310	331	391
Revaluation of loans to others, liabilities to banking entities and other liabilities	-	-	(8)
	13,210	7,389	7,447
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables	(2,065)	11,910	10,421
Decrease in other receivables	2,465	2,869	1,666
Decrease (increase) in inventory	12,564	9,419	(11,137)
Decrease in suppliers and providers of services	(10,642)	(904)	(6,673)
Increase (decrease) in other payables (including payables for the acquisition of operations)	1,030	5,003	(2,766)
	3,352	28,297	(8,489)
Net cash generated by operating activities	28,981	18,860	7,979

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Year ended December 31		
	2015	2014	2013
	U.S. Dollars in thousands		
Cash flows from investment activities			
Purchase of fixed assets and intangible assets	(9,861)	(9,541)	(11,848)
Consideration from the disposal of investment in a formerly consolidated company (A)	-	-	(366)
Acquisition of an initially consolidated company (B)	(999)	-	-
The sale of operations (C)	-	(849)	-
Payments in respect of the acquisition and sale of operations	(2,548)	(6,545)	(8,765)
Consideration from the disposal of marketable securities, net and charged cash	1,025	-	405
Consideration from the disposal of fixed assets	-	-	345
Net cash absorbed by investment activities	(12,383)	(16,935)	(20,229)
Cash flows from financing activities			
Dividend paid	-	(10,251)	(7,692)
Receipt of long-term loans from banking entities	25,628	-	-
Repayment of long-term loans from banking entities	(6,624)	(8,122)	(8,122)
Short-term credit from banking entities, net	(36,276)	15,620	18,499
Net cash generated (absorbed) by financing activities	(17,272)	(2,753)	2,685
Translation differences in respect of cash and cash equivalent balances	(56)	(36)	(329)
Increase (decrease) in cash and cash equivalents	(730)	(864)	(9,894)
Cash and cash equivalents at the beginning of the year	5,099	5,963	15,857
Cash and cash equivalents at the end of the year	4,369	5,099	5,963

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Year ended December 31		
	2015	2014	2013
	U.S. Dollars in thousands		
(A) Exit from consolidation of a previously consolidated company:			
Assets and liabilities of the consolidated company as at the date of the exit from consolidation:			
Working capital (excluding cash and cash equivalents)	-	-	(1,662)
Fixed assets	-	-	49
Other non-current assets	-	-	109
Intangible assets	-	-	2,521
Goodwill	-	-	2,867
Deferred taxes	-	-	(630)
Non-current liabilities	-	-	(250)
Gain on the exit from consolidation of a consolidated company	-	-	445
Non-controlling interests	-	-	(1,285)
Investment in a company accounted for at equity	-	-	(2,530)
	-	-	(366)
(B) Acquisition of an initially consolidated company:			
Assets and liabilities of the operations as of the date of the acquisition:			
Working capital (excluding cash and cash equivalents)	(254)	-	-
Fixed assets	(23)	-	-
Intangible assets	(1,280)	-	-
Goodwill	(920)	-	-
Deferred taxes	339	-	-
Gain as a result of an increase to control	796	-	-
Investment in a company accounted for at equity	343	-	-
	(999)	-	-

The accompanying notes form an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

		Year ended December 31	
	2015	**2014**	**2013**
		U.S. Dollars in thousands	
(C) The sale of operations:			
Other receivables	-	(8,118)	-
Depreciation and amortization	-	233	-
Payables for the sale of operations	-	4,480	-
Other payables	-	586	-
Capital gain on the sale of operations	-	1,970	-
	-	(849)	-
(D) Significant activities, not involving cash flows:			
Acquisition of fixed assets and intangible assets on credit	2,941	1,825	1,456
Additional cash flow information:			
Cash paid during the year for:			
Interest	2,538	3,156	4,105
Taxes on income	682	1,368	5,682
Cash received during the year for:			
Interest	48	277	223
Taxes on income	75	1,601	425

The accompanying notes form an integral part of the consolidated financial statements.

Note 1 - <u>General</u>

<u>General description of the Group and its activities</u>

Electra Consumer Products (1970) Ltd. (hereinafter- "The Company") is a subsidiary company of Iliasi Ltd. (hereinafter – "The parent company"), which is wholly owned by Elco Ltd. (hereinafter "The ultimate parent company").

The Company holds 100% of the shares in Electra Consumer Products (1951) Ltd. (hereinafter – "The subsidiary company").

The Company is a public company that is traded on the Tel-Aviv Stock Exchange

The Group has three fields of operations, which are also reported as business segments in the financial statements:

A. The importation, manufacturing, exportation, marketing, sale and distribution of electrical consumer products and the provision of service for products.

B. The operation of retail marketing chains for electrical consumer products.

C. The operation of retail marketing chains, which specialize in home design and maintenance solutions and in products for vehicles.

Note 2 - <u>Convenience translation</u>

The annual Financial Statements in US Dollars are a translation of the statements as prepared in New Israeli Shekels ("NIS" or "Shekel") at the rate of exchange of the Shekel for the US Dollar prevailing on December 31, 2015 (NIS 3.902 = US$ 1).

It should be noted that the New Israeli Shekel amounts, on the basis of which the convenience translation figures were prepared, do not necessarily represent the current cost amounts of the various elements within the financial statements and, also, that it should not be construed from the translation into US Dollar figures that the Israeli currency amounts actually represent, or could be converted into Dollars. These financial statements have been prepared for the convenience of the reader. In the event of any discrepancy between the contents of this translation and the Hebrew original, the Hebrew original prevails.