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

Interim Consolidated Financial Statements

As of March 31, 2016
(Unaudited)

Convenience Translation into U.S. Dollars

C o n t e n t s

The Board of Directors of Electra Consumer Products (1970) Ltd. is pleased to present the financial statements of the Company and of its consolidated companies for the period of three months ended March 31, 2016.

The review that is presented below is abbreviated in its scope and relates to events and changes that have occurred in the state of the Company's affairs in the reporting period, it should be read in conjunction with the financial statements and the report of the Board of Directors on the state of the Company's affairs for the year ended December 31, 2015 (hereinafter: "**The periodic report**").

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 detailed below: **The first field** – the importing, manufacturing, exporting, marketing, sale and distribution of electrical consumer products as well as the provision of services for products ("**The electrical consumer products segment"**); **the second field-** the operation of retail marketing chains for the sale of electrical consumer products in Israel ("**The retail segment**"); and **the third field** – the operation of "Do It Yourself" chains – retail chains specializing in the provision of home design and maintenance solutions and in the field of products for motor vehicles field ("**The Do It Yourself segment**").

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

The first quarter of 2016 has been typified by the continuation of the improvement in the Company's results, which found expression in a significant increase in the Company's profitability including an improvement in the gross profit rate and the continuation of the increased efficiency in the operating expenses, which was a result of the re-organization plan that was announced at the end of 2014 and which was re-expanded in September 2015.

A. The Company has recorded an improvement in its results as compared with the previous year, even though in 2016 the Passover festival fell in the middle of April and accordingly the impact of the festival on the sales occurred in the second quarter of the year, whereas in 2015, the impact of the festival was felt in the first quarter of the year. The timing of the festival has an impact on the balances of inventories, customers and suppliers, and primarily on the Company's sales in the retail and Do It Yourself segments.

B. The first quarter of 2016 was typified by the continuation of the implementation of the Company's re-organization program. The activity that was undertaken in the current quarter includes, inter alia:

1. The closure of branches which do not contribute to the Company's operations.
2. The continuation of the 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.
3. The continuation of the execution of the efficiency program in connection with the reduction of the size of the Company's workforce.

C. 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, which holds the balance of the shares (50%). On February 4, 2016 the transaction was completed in accordance with its terms and the Company went up to a holding of 75% in S.Z (see Note 5 to the interim consolidated financial statements for additional details).

1.3 **The main events in the reporting period**

See Note 4 to the interim consolidated financial statements in connection with significant events in the reporting period.

2. The Board of Directors' explanations for the Company's financial position

2.1 The financial position

2.1.1 **The following is a summary of the consolidated balance sheets:**

	March 31		December 31
	2016	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands		
Current assets	262,411	272,084	238,718
Non-current assets	117,261	110,931	107,568
Total assets	379,672	383,015	346,286
Current liabilities	214,550	245,341	191,812
Non-current liabilities	42,431	27,800	37,570
Equity	122,691	109,874	116,904
Total liabilities and equity	379,672	383,015	346,286

Assets

2.1.2 The total current assets as of 31.3.2016 amounted to US$ 262,411 thousand, as compared with US$ 238,718 thousand as of 31.12.2015. The change in the current assets derived primarily from an increase in inventory and in trade receivables. The increase in inventory derived primarily from stocking up in advance of the Passover festival and from the initial consolidation of S.Z. See Note 5 to the interim consolidated financial statements for additional details.

2.1.3 The total non-current assets as of 31.3.2016 amounted to US$ 117,261 thousand, as compared with an amount of US$ 107,568 thousand as of 31.12.2015. The change derives primarily from an increase in the intangible assets, deriving from the initial consolidation of S.Z. See Note 5 to the interim consolidated financial statements for additional details.

Liabilities

2.1.4 The total current liabilities as of 31.3.2016 amounted to US$ 214,550 thousand, as compared with US$ 191,812 thousand as of 31.12.2015. The increase in the current liabilities derived primarily from an increase in liabilities to suppliers, as a result of stocking up on inventory in advance of the Passover festival, from an increase in short-term credit and also from the initial consolidation of S.Z. See Note 5 to the interim consolidated financial statements for additional details.

2.1.5 The non-current liabilities as of 31.3.2016 amounted to US$ 42,431 thousand, as compared with US$ 37,575 thousand as of 31.12.2015. The increase derived primarily from the recording of the liability in respect of a put option, which was granted to the seller of S.Z. on the balance of its holdings. See Note 5 to the interim consolidated financial statements for additional details.

Shareholders' equity

2.1.6 The equity as of 31.3.2016 amounted to US$ 122,691 thousand, as compared with US$ 116,904 thousand as of 31.12.2015. The increase in the shareholders' equity in the reporting period derived from net income of US$ 5,569 thousand, other comprehensive income of US$ 68 thousand and share-based payments of US$ 150 thousand.

3. **The operating results by periods (in US$ thousands):**

	The period of three months ended March 31		The year ended December 31
	2016	2015	2015
Revenues from sales and the provision of services	167,014	170,106	725,955
Cost of sales and services	118,094	121,673	519,510
Gross profit	48,920	48,433	206,445
Selling and marketing expenses	40,893	42,633	172,029
Administrative and general expenses	2,470	2,690	11,597
Other income, net	2,708	323	1,986
Operating income before expenses relating to a structural change	8,265	3,433	24,805
Expenses relating to a structural change	-	-	2,707
Operating income	8,265	3,433	22,098
Financing income	1,079	895	514
Financing expenses	(2,158)	(1,835)	(4,791)
Company's share of the profits (losses) of companies treated at equity method, net	(129)	258	343
Income before taxes on income	7,057	2,751	18,164
Taxes on income	1,488	1,112	5,297
Net income	5,569	1,639	12,867

3.1 **Revenues**

The Group's revenues in the first quarter of 2016 (hereinafter – "The reporting period") amounted to US$ 167,014 thousand, as compared with US$ 170,106 thousand in the comparative period in the previous year, an decrease of approximately 1.8%. The decrease derived from the retail segment and the Do It Yourself segment, deriving primarily from the timing of the Passover festival, see Section 1.2A above, which was offset by an increase of approximately 21% in the electrical consumer products segments. See Section 4 below in connection with reporting regarding the fields of business activity for additional details.

3.2 **Gross profit**

The gross profit rate in the reporting period stood at 29.3% of the sales turnover, as compared with 28.5% in the comparative period in the previous year, constituting an improvement of 0.8%.

The gross profit in the reporting period amounted to US$ 48,920 thousand, as compared with US$ 48,433 thousand in the comparative period in the previous year, an increase of approximately 1%.

The increase in the gross profit rate derived primarily from an improvement in the commercial conditions in the retail segment and from an improvement in the commercial conditions with suppliers and concession holders in the "Do it Yourself" segment.

3.3 **Selling and marketing expenses**

Selling and marketing expenses in the reporting period amounted to US$ 40,893 thousand (24.5% of the sales turnover), as compared with US$ 42,633 thousand (25.1% of the sales turnover) in the comparative period in the previous year. The decrease derives primarily from the retail and Do It Yourself segments, as a result of the timing of the Passover Festival and from a decrease in operating expenses as a result of the continuation of the implementation of the efficiency program. In the electrical consumer products segment, the increase derived primarily from the consolidation of S.Z. and Electra Communication Ltd. ("Electra Communication") which were not included in the comparative figures for the first quarter of 2015.

3.4 **Administrative and general expenses**

Administrative and general expenses in the reporting period amounted to US$ 2,470 thousand (1.5% of the sales turnover), as compared with US$ 2,690 thousand (1.6% of the sales turnover) in the comparative period in the previous year.

3.5 **Other income, net**

Other income, net in the reporting period amounted to US$ 2,708 thousand as compared with other expenses of US$ 323 thousand in the comparative period in the previous year. The increase in other income derived from primarily from the recognition of a gain, which the Company derived as a result of the revaluation of the investment in S.Z. in accordance with fair value. See Note 5 to the interim consolidated financial statements for additional details.

3.6 **Operating income**

The operating income in the reporting period amounted to US$ 8,265 thousand as compared with US$ 3,433 thousand in the comparative period in the previous year, an increase of approximately 140%.

3.7 **Financing expenses, net**

The financing expenses, net in the reporting period amounted to US$ 1,079 thousand as compared with financing expenses, net of US$ 940 thousand in the comparative period in the previous year.

3.8 **Income before taxes on income**

The income before taxes on income in the reporting period amounted to US$ 7,057 thousand, as compared with US$ 2,751 thousand in the comparative period in the previous year.

3.9 **Taxes on income**

Tax expenses on income in the reporting period amounted to US$ 1,488 thousand, as compared with US$ 1,112 thousand in the comparative period in the previous year.

3.10 **Net income**

The net income in the reporting period amounted to US$ 5,569 thousand, as compared with a US$ 1,639 thousand in the comparative period in the previous year, an increase of approximately 240%.

3.11 **Earnings before interest, taxes on income, depreciation and amortization (EBITDA)**

The EBITDA in the reported period amounted to US$ 10,677 thousand, as compared with US$ 5,342 thousand in the comparative period in the previous year.

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

	Quarter 1-3/16	Quarter 10-12/15	Quarter 7-9/15	Quarter 4-6/15	Quarter 1-3/15
Revenues from sales and the provision of services	167,014	174,858	203,682	177,309	170,106
Cost of sales and services	118,094	124,645	147,775	125,417	121,673
Gross profit	48,920	50,213	55,907	51,892	48,433
Selling and marketing expenses	40,893	42,050	44,575	42,771	42,633
Administrative and general expenses	2,470	3,153	2,988	2,766	2,690
Other income, net	2,708	1,091	279	293	323
Operating income before expenses relating to a structural change	8,265	6,101	8,623	6,648	3,433
Expenses relating to a structural change	-	(1,624)	(1,027)	(56)	-
Operating income	8,265	4,477	7,596	6,592	3,433
Financing income	1,079	108	(1,035)	546	895
Financing expenses	(2,158)	(1,064)	(956)	(936)	(1,835)
Company share of the profits (losses) of companies treated at equity method, net	(129)	(196)	(25)	306	258
Income before taxes on income	7,057	3,325	5,580	6,508	2,751
Taxes on income	1,488	844	1,723	1,618	1,112
Net Income	5,569	2,481	3,857	4,890	1,639

4. Report in respect of operating segments

4.1 Revenues:

	Three months ended March 31		
	2016	**2015**	**Percentage change**
	U.S. Dollars in thousands		
Electrical consumer products	83,781	69,339	20.8%
Retail networks	65,786	77,016	(14.6%)
"Do It Yourself"	31,192	35,912	(13.1%)
Adjustments and other items	(13,745)	(12,161)	13.0%
Total	167,014	170,106	(1.8%)

	Three months ended March 31		
	2016	2015	Percentage change
	U.S. Dollars in thousands		
Segmental income			
Electrical consumer products	5,806	3,687	57.5%
Retail networks	2,037	995	104.7%
"Do It Yourself"	789	1,155	(31.7%)
Adjustments and other items	2,104	286	635.7%
Total	10,736	6,123	75.3%
Unallocated joint expenses	2,471	2,690	(8.2%)
Operating income	8,265	3,433	140.7%

4.2 **Explanations relating to the figures that appear in the table**

As aforesaid, in 2016 the Passover festival fell in the middle of April, as compared with 2015 when it fell at the beginning of April. The timing of the Passover festival has a significant impact, primarily in the retail segment and in the "Do it yourself" segment.

(1) **Electrical consumer products**

The revenues turnover in the reporting period amounted to US$ 83,781 thousand, as compared with an amount of US$ 69,339 thousand in the comparative period in the previous year, an increase of 20.8%. The increase in sales in the segment derived primarily from air-conditioner operations in Israel and overseas and from the trading in brands operations and also from the consolidated of the sales of S.Z. and Electra Communication, which were not recorded in sales for the comparative period in the previous year.

The operating income in the segment in the reporting period amounted to US$ 5,806 thousand, as compared with an amount of US$ 3,687 thousand in the comparative period in the previous year, an increase of 57.5%. The increase in the segmental income derived primarily from the air-conditioner and trading in brands operations.

(2) **Retail**

The revenues turnover in the reporting period amounted to US$ 65,786 thousand, as compared with an amount of US$ 77,016 thousand in the comparative period in the previous year, a decrease of approximately 14.6%. The same store sales in the segment, which operated fully in the reporting period and in the comparative period in the previous year, decreased by approximately 9%. The decrease in the revenues turnover by comparison with the previous year derives from the timing of the Passover festival.

Sales per square meter in same stores amounted to a monthly average of US$ 642 per square meter as compared with US$ 690 per square meter in the comparative period in the previous year, a decrease of 7%.

In light of the timing of the Passover festival and the impact on the sales in the marketing chains that are owned by the Company in the segment, as aforesaid, the Company notes that the same stores sales in the segment, in the months of January to April 2016 grew by 1.4% by comparison with the comparative period in the previous year. It should be noted that these figures have not been audited and have not been reviewed by the Company's auditors.

The segmental income in the reporting period amounted to US$ 2,037 thousand, as compared with an amount of US$ 995 thousand in the comparative period in the previous year, an increase of 104.7%. 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 segmental profit rate in the reporting period stood at 3.1% of the revenues turnover, as compared with 1.3% in the comparative period in the previous year.

(3) **"Do It Yourself"**

The revenues turnover in the reporting period amounted to US$ 31,192 thousand, as compared with an amount of US$ 35,912 thousand in the comparative period in the previous year, a decrease of approximately 3.1%. The same store sales in the segment, which operated fully in the reporting period and in the comparative period in the previous year, decreased by approximately 10.2%. The decrease in the revenues turnover as compared to the previous year derived from the timing of the Passover festival.

Sales per square meter in same stores amounted to a monthly average of US$ 183 per square meter as compared with US$ 197 per square meter in the comparative period in the previous year, a decrease of approximately 6.9%.

In light of the timing of the Passover festival and its impact on the revenues turnover, as aforesaid, the company notes that the same stores sales in the segment, in the months of January to April 2016 grew by 5.3% by comparison with the comparative period in the previous year. It should be noted that these figures have not been audited and have not been reviewed by the Company's auditors.

The segmental income in the reporting period amounted to US$ 789 thousand, as compared with an amount of US$ 1,155 thousand in the comparative period in the previous year. The decrease in the segmental profitability derives from a decrease in the segmental sales as compared with the previous year as a result of the timing of the Passover festival.

4.3. **Distribution of sources of finance (see also section 18 in part A of the Company's periodic report for the year 2015)**

4.3.1 The distribution of the sources of finance:

	Three months ended March 31		Year ended December 31
	2016	**2015**	**2015**
	U.S. Dollars in thousands		
Cash generated (absorbed) by			
Operating activities	1,187	4,955	30,028
Investment activities	(5,264)	(2,125)	(12,830)
Financing activities	5,643	(961)	(17,896)
Translation differences in respect of cash balances	8	(59)	(58)
Increase (decrease) in cash and cash equivalents	1,574	1,810	(756)

4.4 Cash flows from operating activities

The net cash generated by operating activities amounted to US$ 1,187 thousand, as compared with an amount of US$ 4,955 thousand in the comparative period in the previous year.

4.5 Cash flows from investment activities

The net cash absorbed by investment activities amounted to US$ 5,264 thousand, as compared with an amount of US$ 2,125 thousand in the comparative period in the previous year. The cash absorbed by investment activities were used primarily for the purchase of fixed and other assets in an amount of US$ 2,742 thousand as well as payments of US$ 2,522 thousand in respect of the acquisition of 25% of the shares in S.Z.. See Note 5 to the interim consolidated financial statements for additional details.

4.6 Cash flows from financing activities

The net cash generated by financing activities amounted to US$ 5,643 thousand, as compared with net cash of US$ 961 thousand absorbed by financing activities in the comparative period in the previous year.

5. Qualitative report regarding exposure to market risks and the way in which they are managed

No change has occurred in relation to the disclosures regarding the Company’s market risks management policy and the supervision thereof, or in the persons who are responsible in the Company for the management of the Company's market risks, as detailed in the Company's periodic report for the year 2015.

See Chapter A (Description of the entity's business) in the Company's periodic report for the year 2015 for details regarding the risk factors to which the Group is exposed in accordance with the fields of activity.

6. Aspects of corporate governance

6.1 The approval of the Company's financial statements

The Company's Financial Statements Examination Committee ("**The Balance Sheet Committee**"), which has been appointed by the Company's Board of Directors in accordance with the provisions of the Companies Regulations (provisions and conditions on the matter of the process of the approval of the financial statements) – 2010, is responsible for the examination of the financial statements.

The members of the Balance Sheet Committee also serve as the members of the Company's Audit Committee. The members of the Balance Sheet Committee are Ms. Shulamit Eshbol, who holds office as an external director and as the Chairwoman of the Balance Sheet Committee, Mr. Aviram Gilad, who holds office as an external director and as the Chairman of the Audit Committee and Mr. Ronen Israel, who holds office as an independent director in the Company. For details regarding the educational background, the skills and the business experience of the said directors see Regulation 26 in Part D of the Periodic Report for the year 2015.

In continuation of the Corporate Governance Questionnaire, which was included in the Periodic Report for the year 2015, on May 18, 2016, the Financial Statements Examination Committee held a comprehensive discussion on the subject of the Company’s financial statements as of March 31, 2016 and passed its recommendations to the Company’s Board of Directors. All of the members of the Committee were present at the meeting.

The Company's financial statements were approved by the Company's Board of Directors on May 24, 2016.

6.2 **The remuneration of interested parties and senior officers**

On February 29, 2016, the Company's Board of Directors approved the allocation of 100,000 options, which are exercisable into regular shares of par value US$ 0.27 in the company, which after their allocation will constitute approximately 0.46% of the issued and paid-up share capital at the time of the approval, to a senior manager in the Group, which was done in accordance with the existing options plan in the Company. See Note 6 to the interim consolidated financial statements for details.

6.3 **Report on the state of the liabilities of the Company and of the consolidated companies, or consolidated**

See the separate report (T-126) on the state of the liabilities of the Company and of the consolidated companies, as reported by the company in the immediate report of May 24, 2016.

7. **Disclosure in respect of critical accounting estimates**

See the report of the Board of Directors as of December 31, 2015.

8. Events after the date of the statement of financial position

See Note 8 to the interim consolidated financial statements.

Daniel Salkind
Chairman of the Board of Directors

Ze'ev Kalimi
Chief Executive Officer

May 24, 2016

In this Report of the Board of Directors for the three months ended March 31, 2016, 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 March 31, 2016 (US$ 1.- = NIS 3.766).

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Auditors' Review Report to the Shareholders of Electra Consumer Products (1970) Ltd.

Introduction

We have reviewed the accompanying financial information of Electra Consumer Products (1970) Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated statements of financial position as of March 31, 2016, the condensed consolidated statements of comprehensive income, the statements of changes in equity and the statements of cash flows, for the period of three months ended on that date. The Company's board of directors and management are responsible for the preparation and presentation of financial information for this interim period, in accordance with International Accounting Standard IAS 34, "Interim Financial Reporting" and they are also responsible for the preparation of financial information for the interim period in accordance with Part D' of the Securities Regulations (Periodic and Immediate Reports) 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

The scope of the review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "The review of financial information for interim periods performed by the independent auditor of an Entity". A review of financial information for interim periods consists of making inquiries, primarily of the persons who are responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially reduced in scope from an audit conducted in accordance with generally accepted auditing standards in Israel and consequently it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to what is stated in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, from all material perspectives, with disclosure provisions in accordance with Part D' of the Securities Regulations (Periodic and Immediate Reports) 1970.

Convenience translation of the financial statements

The interim financial statements in US Dollars were translated from the statements in New Israeli Shekels and have been prepared solely for the convenience of the reader (see Note 2 C).

Yours sincerely

KOST FORER GABBAY & KASIRER
Certified Public Accountants

Tel-Aviv
May 24, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	March 31		December 31
	2016 (*)	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands		
Current assets			
Cash and cash equivalents	6,101	7,093	4,527
Trade receivables	102,468	93,072	99,007
Other receivables (including related companies)	12,424	19,456	11,312
Inventory	141,418	152,463	123,872
	262,411	272,084	238,718
Non-current assets			
Trade receivables and other receivables	3,320	4,739	3,431
Investments in companies accounted for at equity	-	5,105	2,450
Fixed assets	37,576	35,958	36,832
Goodwill	61,275	56,076	57,030
Intangible assets	14,721	5,503	7,288
Deferred taxes	369	3,550	537
	117,261	110,931	107,568
	379,672	383,015	346,286

(*) See Note 2.B. regarding the early adoption of International Accounting Standard Number 15.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	March 31		December 31
	2016	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands		
Current liabilities			
Credit from banking entities and others	22,446	33,605	9,749
Suppliers and providers of services	132,841	147,773	121,872
Other payables	59,263	62,418	60,191
Payables for the acquisition and sale of operations	-	1,545	-
	214,550	245,341	191,812
Non-current liabilities			
Loans from banking entities	17,260	10,621	18,587
Other liabilities	16,782	13,640	13,441
Employee benefit liabilities	4,892	3,418	4,819
Deferred taxes	3,497	121	723
	42,431	27,800	37,570
Total equity	122,691	109,874	116,904
	379,672	383,015	346,286

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

May 24, 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

ELECTRA CONSUMER PRODUCTS (1970) LTD.

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

	Three months ended March 31		Year ended December 31
	2016	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands		
Revenues from sales and the provision of services	167,014	170,106	725,955
Cost of sales and services	118,094	121,673	519,510
Gross profit	48,920	48,433	206,445
Selling and marketing expenses	40,893	42,633	172,029
Administrative and general expenses	2,470	2,690	11,597
Other income, net	2,708	323	1,986
Operating income before expenses relating to a structural change	8,265	3,433	24,805
Expenses relating to a structural change	-	-	2,707
Operating income	8,265	3,433	22,098
Financing income	1,079	895	514
Financing expenses	(2,158)	(1,835)	(4,791)
Company's share of the profits (losses) of companies accounted for at equity, net	(129)	258	343
Income before taxes on income	7,057	2,751	18,164
Taxes on income	1,488	1,112	5,297
Net income	**5,569**	**1,639**	**12,867**
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	-	-	(743)
Amounts that will be classified or reclassified to profit or loss, when specific conditions are met:			
Adjustments deriving from the translation of financial statements of foreign operations	68	(818)	(862)
Gain (loss) on cash flow hedging transactions	-	2,418	(273)
Transfer to the statement of profit or loss in respect of cash flow hedging transactions	-	(1,006)	(2,280)
Total components that will be classified or reclassified to profit or loss	68	594	(3,415)
Total other comprehensive income (loss)	68	594	(4,158)
Total comprehensive income	**5,637**	**2,233**	**8,709**

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

ELECTRA CONSUMER PRODUCTS (1970) LTD.

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

	Three months ended March 31		Year ended December 31
	2016	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands (except earnings per share data)		
Net income attributed to the equity holders in the company (in U.S. Dollars)			
Equity holders in the Company	5,569	1,639	12,867
Non-controlling interests	-	-	-
	5,569	1,639	12,867
Total comprehensive income attributed to:			
Equity holders in the Company	5,637	2,233	8,709
Non-controlling interests	-	-	-
	5,637	2,233	8,709
Basic net earnings per share attributed to equity holders in the company (in U.S. Dollars):	0.26	0.08	0.59
Diluted net earnings per share attributed to equity holders in the company (in U.S. Dollars):	0.25	0.08	0.59
Weighted average number of shares used in the calculation of the net earnings per share	21,632,257	21,632,257	21,632,257

The accompanying notes form an integral part of the Interim 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 interest	Capital reserve on hedging transactions	Adjustments deriving from the translation of financial statements	Capital reserve on share-based payment transactions	Reserve on the re-measurement of defined benefit plans	Retained earnings	Total equity
	Unaudited									
	U.S. Dollars in thousands									
Balance at January 1, 2016 (audited)	19,081	110,341	(1,336)	607	-	(1,723)	2,259	(1,589)	(10,736)	116,904
Total comprehensive income	-	-	-	-	-	68	-	-	5,569	5,637
Cost of share-based payment	-	-	-	-	-	-	150	-	-	150
Balance at March 31, 2016	19,081	110,341	(1,336)	607	-	(1,655)	2,409	(1,589)	(5,167)	122,691

The accompanying notes form an integral part of the Interim 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 interest	Capital reserve on hedging transactions	Adjustments deriving from the translation of financial statements	Capital reserve on share-based payment transactions	Reserve on the re-measurement of defined benefit plans	Retained earnings	Total equity
	Unaudited									
	U.S. Dollars in thousands									
Balance at January 1, 2015 (audited)	19,081	110,341	(1,336)	607	2,553	(861)	1,628	(846)	(23,603)	107,564
Total comprehensive income (loss)	-	-	-	-	1,412	(818)	-	-	1,639	2,233
Cost of share-based payment	-	-	-	-	-	-	77	-	-	77
Balance at March 31, 2015	19,081	110,341	(1,336)	607	3,965	(1,679)	1,705	(846)	(21,964)	109,874

The accompanying notes form an integral part of the Interim 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
	Audited									
	U.S. Dollars in thousands									
Balance at January 1, 2015 (Audited)	19,081	110,341	(1,336)	607	2,553	(861)	1,628	(846)	(23,603)	107,564
Total comprehensive income (loss)	-	-	-	-	(2,553)	(862)	-	(743)	12,867	8,709
Cost of share-based payment	-	-	-	-	-	-	631	-	-	631
Balance at December 31, 2015 (Audited)	19,081	110,341	(1,336)	607	-	(1,723)	2,259	(1,589)	(10,736)	116,904

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Three months ended March 31		Year ended December 31
	2016	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands		
Cash flows from operating activities			
Net income	5,569	1,639	12,867
Adjustments required to present cash flows from operating activities:			
Adjustments to profit and loss items:			
Depreciation and amortization	2,412	1,909	10,428
Cost of share-based payment	150	77	631
Deferred capital gain on the sale of operations which was recognized in the period	(253)	(323)	(1,161)
Gain on the re-measurement of an investment in an initially consolidated investee company	(1,817)	-	(825)
The Company's share of the losses (profits) of companies accounted for at equity, net	469	(258)	(343)
Deferred taxes, net	937	807	4,637
Change in employee benefit liabilities, net	(14)	(71)	321
	1,884	2,141	13,688
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables (including long term receivables)	1,353	(555)	(2,140)
Decrease (increase) in other receivables	(196)	(1,696)	2,554
Decrease (increase) in inventory	(13,956)	(17,858)	13,019
Increase (decrease) in suppliers and providers of services	9,969	18,092	(11,027)
Increase (decrease) in other payables (including payables for the acquisition of operations)	(3,436)	3,192	1,067
	(6,266)	1,175	3,473
Net cash generated by operating activities	1,187	4,955	30,028

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Three months ended March 31		Year ended December 31
	2016	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands		
Cash flows from investment activities			
Purchase of fixed assets and intangible assets	(2,742)	(1,245)	(10,216)
Acquisition of consolidated company that was consolidated in the past (A)	-	-	(1,036)
Acquisition of an initially consolidated company (B)	(2,522)	-	-
Payment in respect of the acquisition and the sale of operations	-	(880)	(2,640)
Consideration from the disposal of marketable securities, net and charged cash	-	-	1,062
Net cash absorbed by investment activities	(5,264)	(2,125)	(12,830)
Cash flows from financing activities			
Receipt of long-term loans from banking entities	-	13,277	26,553
Repayment of long-term loans from banking entities	(1,328)	-	(6,863)
Short-term credit from banking entities, net	6,971	(14,238)	(37,586)
Net cash generated (absorbed) by financing activities	5,643	(961)	(17,896)
Translation difference in respect of cash and cash equivalent balances	8	(59)	(58)
Increase (decrease) in cash and cash equivalents	1,574	1,810	(756)
Cash and cash equivalents at the beginning of the period	4,527	5,283	5,283
Cash and cash equivalents at the end of the period	6,101	7,093	4,527

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

		Three months ended March 31		Year ended December 31
		2016	2015	2015
		Unaudited		Audited
		U.S. Dollars in thousands		
(A)	Acquisition of consolidated company that was consolidated in the past:			
	Assets and liabilities of the consolidated company as at the date of the acquisition:			
	Working capital (excluding cash and cash equivalents)	-	-	263
	Fixed assets	-	-	24
	Intangible assets	-	-	1,326
	Goodwill	-	-	954
	Deferred taxes	-	-	(351)
	Gain as a result of an increase to control	-	-	(825)
	Investment in a company accounted for at equity	-	-	(355)
		-	-	1,036
(B)	Acquisition of an initially consolidated company:			
	Assets and liabilities of the consolidated company as of the date of the acquisition:			
	Working capital (excluding cash and cash equivalents)	(426)	-	-
	Fixed assets	198	-	-
	Intangible assets	8,014	-	-
	Goodwill	4,245	-	-
	Deferred taxes	(2,004)	-	-
	Liability in respect of a put option	(3,622)	-	-
	Other non-current liabilities	(85)	-	-
	Investment in a company accounted for at equity	(1,981)	-	-
	Gain as a result of an increase to control	(1,817)	-	-
		2,522	-	-
(C)	Significant activities, not involving cash flows			
	Acquisition of fixed assets and intangible assets on credit from suppliers	2,673	2,183	3,048
	Additional cash flow information:			
	Cash paid during the year for:			
	Interest	327	518	2,630
	Taxes on income	173	163	706
	Cash received during the year for:			
	Interest	39	12	49
	Taxes on income	-	-	77

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

Note 1 - General

These financial statements have been prepared in a condensed format as at March 31, 2016 and for the period of three months ended on that date (hereinafter - interim consolidated financial statements).

The interim financial statements should be read together with the Company's annual financial statements as of December 31, 2015 and the year ended on that date and the accompanying notes thereto (hereinafter – the annual consolidated financial statements).

Note 2 – Significant accounting policies

A. The format for the preparation of the interim consolidated financial statements

The Interim Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standard IAS 34 "Financial Reporting for Interim Periods", and also in accordance with the disclosure requirements in accordance with section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

The accounting policies that have been implemented in the preparation of the interim consolidated financial statements are consistent with those that were implemented in the preparation of the annual consolidated financial statements, except as stated below:

B. Retrospective implementation following the early adoption of IFRS 15 – Revenue from contracts with customers

IFRS 15 (hereinafter – The Standard) was published by the IASB in May 2014. The Standard applies to the financial statements for annual periods commencing on January 1, 2018 or thereafter, where the earlier implementation is possible – the Standard enables an election to be made for the partial retrospective implementation with certain reliefs, in accordance with which the Standard is only to be implemented in respect of new contracts, which have not yet been completed as of the start of the first reporting period in which the Standard is implemented and the restatement of the comparative figures will not be required.

The Standard presents one model for the treatment of the recognition of revenues from contracts with customers and it replaces IAS 18 – Revenue, IAS 11 – Construction contracts, IFRIC 13 – Customer loyalty programs, IFRIC 15 – Agreements for the construction of real estate, IFRIC 18 – Transfers of assets from customers and SIC 31 – Revenue – Barter transactions involving advertising services. In accordance with the new standard, the amount and the timing of the recognition of revenue will be determined in accordance with a five-stage model, which is to be implemented in respect of revenue generated from contracts with customers, as follows:

Stage 1 – The identification of the contract with the customer, including relating to a collection of contracts and the treatment of changes (modifications) in contracts.

Stage 2 – The identification of the number of distinct performance obligations in the contract.

Stage 3 – The determination of the transaction price, including relating to a variable consideration, a significant financing component, non-cash consideration and consideration that is payable to the customer.

Stage 4 – The allocation of the transaction price to all of the distinct performance obligation on the basis of the relative distinct selling price, using observed prices were available or using estimates and assessments.

Stage 5 – The recognition of the revenue when a performance obligation is satisfied, with a distinction being made between the satisfaction of an obligation at a specific time, and the performance of the obligation over time.

Note 2 – Significant accounting policies (Continued)

B. IFRS 15 – Revenue from contracts with customers (Continued)

In light of the publication of the Standard, as aforesaid, the Company has examined the early adoption of the Standard which included a broad examination of the implications that are expected from the implementation of the standard. In light of the checks that have been conducted, the Company has decided to adopt the Standard by way of early adoption as from the annual financial statements for the year 2016. The Company has adopted the Standard in accordance with the partial retrospective implementation approach with certain reliefs, in other words, only in respect of contracts that had not yet been completed as of the beginning of the period (January 1, 2016).

The partial retrospective implementation approach effectively requires the recognition of the cumulative impact of the implementation of the Standard on contracts that had not yet been completed as of January 1, 2016, by means of the adjustment of the opening balance of the retained earnings as of that time.

In the examination of the impact of the initial implementation of the Standard, as described above, no impact has been found on the Company's financial statements as of March 31, 2016.

C. Convenience translation

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 March 31, 2016 (NIS 3.766 = 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.

Note 3 – Seasonality

The Company's operations are affected by seasonality in accordance with the summer and winter months and festival periods. Air-conditioners are primarily sold in the summer period (the second and third quarters), whereas heating products and drying machines are primarily sold in the winter period (the fourth and first quarters).

Note 4 – Significant events in the reporting date

A. In January 2016, the Law for the Amendment of the Income Tax Ordinance (No. 216) (Reduction of the tax rate for companies) – 2016, which includes the reduction of the tax rate for companies from 26.5% to 25%, was passed. This amendment is effective as from January 1, 2016.

The deferred tax balances as of December 31, 2015 were calculated in accordance with the previous tax rates. The deferred tax balances as of March 31, 2016, have been calculated in accordance with the new tax rates, as aforesaid. The said change has not had a significant impact on the Company's deferred tax balances.

B. See Note 5 below for information regarding a transaction for the acquisition of 25% of the share capital of S.Z. Systems Ltd.

Note 4 – Significant events in the reporting date (Continued)

C. See Note 6 below for information regarding the allocation of options to officers in the Company

Note 5 – Business combinations

On November 17, 2015, Electra Consumer Products (1951) Ltd. (hereinafter - The subsidiary company) signed on an agreement with S.Z. Systems Ltd. (hereinafter –S.Z.) and with a third party, which holds the balance of the shares in S.Z. (hereinafter – The seller), in accordance with which the subsidiary company will acquire 25% of the issued and paid up share capital in S.Z. from the seller, in addition to which mutual options will be given to the subsidiary company and to the seller in relation to the balance of the shares in S.Z.

The following are the main points of the agreement:

1. The subsidiary company will acquire 25% of the issued and paid up share capital in S.Z. from the seller, in consideration for an amount of US$ 2.7 million, which is payable at the time of the completion of the transaction. Immediately before the completion of the transactions, S.Z, will distribute a cash dividend to its shareholders, in an amount equal to the amount of S.Z.'s distributable retained earnings, which amounted to approximately US$ 0.6 million as of December 31, 2015. After the completion of the transaction, the subsidiary company will hold 75% of S.Z.'s share capital.

2. In addition, at the time of the completion of the transaction, the seller will grant the subsidiary company a call option for the purchase of the balance of 25% of S.Z.'s issued and paid up share capital that is held by the seller (hereinafter – "The option shares"), for an unlimited period of time, commencing 12 months after the time of the completion of the transaction (hereinafter – "The period of the option") and the subsidiary company will grant the seller a put option for the sale of the option shares for the period of the option.

   The consideration on an exercise will be in accordance with the agreed consideration in respect of the call option or the put option in accordance with mechanisms that are set in the agreement.

3. In addition, the agreement contains representations and declarations, as is generally acceptable, as well as amendments to the existing shareholders' agreement, within the framework of which provisions were also determined for the termination of the management agreements existing between S.Z. and the seller. The completion of the transaction was made conditional upon the meeting of crucial conditions, which were set in the agreement, including the receipt of approval from Daikin, the Anti-Trust Commissioner and from S.Z.'s financing banks.

4. On February 4, 2016, the transaction was completed, upon the meeting of the crucial conditions.

Immediately before the completion of the transaction, the subsidiary company held 50% of S.Z.'s share capital and it treated the investment in S.Z. at equity. Upon the completion of the transaction and in accordance with the provisions of IFRS 3 regarding the achievement of control in stages, the Company measured its existing investment in S.Z. at fair value and recognized a revaluation gain of US$ 2.7 million on the said investment. In the course of the execution of the attribution of the transaction price, the Company identified that an amount of US$ 0.8 million out of the overall consideration was paid to the seller in respect of the clearance of previous relationships between it and the Company. Accordingly, and in accordance with the provisions of IFRS 3, this amount has not been included within the framework of the cost of the business combination and has been reflected as an expense in the statement of profit or loss. The total net gain in respect of the transactions is approximately US$ 1.8 million.

Note 5 – Business combinations (Continued)

Furthermore, following the granting of the put option to the seller in respect of the balance of the shares that it holds, as aforesaid, the seller's rights in S.Z.'s shares have been classified as a financial liability (and not under equity attributed to non-controlling interests) and they have not been afforded a share in S.Z.'s profits. The financial liability is measured on the basis of the present value of the consideration that will be transferred at the time of the exercise of the put option, and its value amounts to US$ 3.6 million.

The fair value of S.Z.'s identifiable assets and liabilities at the time of the acquisition:

	Fair value U.S. Dollars in thousands
Cash and cash equivalents	133
Trade receivables	4,605
Other receivables	900
Inventories	3,536
Fixed assets	198
Intangible assets	8,014
	17,386
Credit from banking entities and others	(5,686)
Suppliers and providers of services	(1,321)
Other payables	(2,380)
Employee benefit liabilities	(85)
Deferred tax	(2,004)
Net identifiable assets, net	5,910
Goodwill arising on the acquisition	4,245
Total acquisition cost	10,155

The acquisition cost	U.S. Dollars in thousands
Cash paid	2,655
Less the amount that has been attributed to the clearance of previous relationships between the Company and the seller	(867)
Liability in respect of a put option	3,622
Fair value of the existing investment at the time of the acquisition	4,745
Total acquisition cost	10,155

Cash outflow on the acquisition	U.S. Dollars in thousands
Cash and cash equivalents in the acquired company at the time of the acquisition	133
Cash paid in consideration for the acquisition	2,655
Net cash	2,522

Note 5 – Business combinations (Continued)

Since the time of the acquisition, S.Z. has contributed a loss of US$ 125 thousand to the consolidated net income and US$ 1.86 million to the consolidated revenue turnover for the period ended March 31, 2016.

The goodwill arising on acquisition is attributed to the expected benefits from the synergies of the combination of the activities of the Company and the acquiree.

Note 6 – Share-based payment transactions

On February 29, 2016, the Company's Board of Directors approved the allocation of 100,000 options, which are exercisable into regular shares of par value US$ 0.27 each in the Company which will constitute approximately 0.46% of the Company's issued and paid up share capital following their allocation and as at the time of the approval, to a senior manager in the Group, which was done in accordance with the options plan that exists in the Company. The exercise price of the options, as aforesaid, is US$ 8.32. The options are exercisable in two equal tranches, the first of which is at the end of a period of three years from the time of the allocation, and the second of which is at the end of a period of four years from the time of the allocation. At the end of a period of five years from the time of the allocation they will expire, be cancelled and will no longer have any validity whatsoever. The exercise of the options into shares will be done under a "net exercise" mechanism.

The allocation of the options was executed in accordance with Section 102 of the Income Tax Ordinance (New Version) – 1968, under the capital gain path with a trustee.

The economic value of the options warrants for the officer was US$ 182.7 thousand at the time of the grant, which was determined in accordance with the binomial model.

Note 7 – Operating segments

A. **General**

The Company reports on three business segments in the financial statements, as follows:

The electrical consumer products segment	-	The importing, manufacture, exporting, marketing, sale and distribution of electrical consumer products, the importing of computers and the provision of services for the products.
The electrical retail chains segment	-	The operation of retail marketing chains for the sale of electrical consumer products.
The "Do it Yourself" segment	-	The operation of retail chains, which specialize in home design and maintenance solutions and in the field of products for motor vehicles.

The segmental results that are reported to the chief operational decision maker include details that are directly attributable to the segment and items that can be reasonably attributed to the segment. The company assesses the performance on the basis of the operating profit (loss).

Transfer prices between the operating segments are calculated in accordance with the conditions in a similar market for transaction with third parties.

The segmental revenues, expenses and operational results included inter-segmental transfers. The transfers are eliminated for the purposes of the preparation of the financial statements.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS

Note 7 – Operating segments (Continued)

A. General (Continued)

The Chief Operational Decision Maker (CODM) is of the opinion that the presentation of the expenses relating to the Company's head office under unallocated joint expenses provides a fairer reflection of the Company's operating segments, since this gives a more correct reflection of the changes and the trends within the segments and between the segments.

B. Report on segmental activities

	Electrical consumer products segment	The electrical retail segment	The Do It Yourself segment	Adjustments and other	Total
	Unaudited				
	U.S. Dollars in thousands				
For the period of three months ended March 31, 2016					
External income	70,036	65,786	31,192	-	167,014
Inter-segmental income	13,745	-	-	(13,745)	-
Total income	83,781	65,786	31,192	(13,745)	167,014
Depreciation and amortization	1,202	311	533	366	2,412
Other income	254	637	-	1,817	2,708
Segmental income	5,806	2,037	789	2,104	10,736
Unallocated joint expenses					2,471
Operating income					8,265

	Electrical consumer products segment	The electrical retail segment	The Do It Yourself segment	Adjustments and other	Total
	Unaudited				
	U.S. Dollars in thousands				
For the period of three months ended March 31, 2015					
External income	57,178	77,016	35,912	-	170,106
Inter-segmental income	12,161	-	-	(12,161)	-
Total income	69,339	77,016	35,912	(12,161)	170,106
Depreciation and amortization	861	334	525	189	1,909
Other income	323	-	-	-	323
Segmental income	3,687	995	1,155	286	6,123
Unallocated joint expenses					2,690
Operating income					3,433

Note 7 – Operating segments - (Continued)

B. **Report on segmental activities (Continued)**

	Electrical consumer products segment	The electrical retail segment	The Do It Yourself segment	Adjustments and other	Total
	Audited				
	U.S. Dollars in thousands				
For the year ended December 31, 2015					
External income	267,351	313,591	145,013	-	725,955
Inter-segmental income	53,128	-	-	(53,128)	-
Total income	320,479	313,591	145,013	(53,128)	725,955
Depreciation and amortization	4,290	1,450	2,063	787	8,590
Other income	1,161	-	-	825	1,986
Segmental income	23,644	5,127	5,810	1,822	36,403
Unallocated joint expenses					11,598
Operating income before expenses to a structural change					24,805
Expenses relating to a structural change					2,707
Operating income					22,098

Note 8 – Significant events in the reporting period and thereafter

A. In continuation of what is stated in Note 19.D.15 to the annual financial statements, on March 31, 2016, a decision was made by the Anti-Trust Commissioner (hereinafter – The Commissioner), in accordance with which the Anti-Trust Authority opposed the acquisition of the subsidiary company's water bar operations by Mey Eden Bar – First Class Service Ltd. (hereinafter – The purchaser). In light of the subsidiary company's intention to file an appeal in relation to the Supervisor's decision, an amendment to the agreement was signed on April 23, 2016, in accordance with which it was agreed between the subsidiary company and the purchaser that the last time for the completion of the transaction would be extended to July 20, 2016. Furthermore, it was agreed that the purchaser would not be entitled to cancel the agreement in relation to the critical finding as defined in the agreement.

B. On May 24, 2016, the Company's Board of Directors approved the allocation of 100,000 options, which are exercisable into regular shares of par value US$ 0.27 each in the Company ,which will constitute approximately 0.46% of the Company's issued and paid up share capital following their allocation and as at the time of the approval, to a senior manageress in the Group, which was done in accordance with the options plan that exists in the Company. The exercise price of the options, as aforesaid, is US$ 9.03.

Note 8 – Significant events in the reporting period and thereafter (Continued)

B. (Continued)

The options are exercisable in two equal tranches, the first of which is at the end of a period of three years from the time of the allocation, and the second of which is at the end of a period of four years from the time of the allocation. At the end of a period of five years from the time of the allocation they will expire, be cancelled and will no longer have any validity whatsoever. The exercise of the options into shares will be done under a "net exercise" mechanism.

The allocation of the options was executed in accordance with Section 102 of the Income Tax Ordinance (New Version), 1968, under the capital gain path with a trustee.

The economic value of the options warrants for the officer was US$ 234.7 thousand at the time of the grant, which was determined in accordance with the binomial model.

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