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

Interim Consolidated Financial Statements

As of June 30, 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 six months ended June 30, 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

A. The business results for the second quarter of 2106, are the Company's best results by comparison to the second quarters for all of the preceding years, since the time that the Company's securities were listed for trading on the Tel-Aviv Stock Exchange Ltd. in December 2010.

The following is information on the results for the second quarter in each of the years from 2011 (in US$ thousands):

	The second quarter of 2016	The second quarter of 2015	The second quarter of 2014	The second quarter of 2013	The second quarter of 2012	The second quarter of 2011
Revenues	218,967	173,621	193,083	186,986	169,801	130,399
Operating income	14,534	6,454	1,472	7,460	7,423	6,633
Net income (loss)	9,820	4,788	(467)	4,685	478	5,041
Cash flows from operating activities	24,507	(15,405)	2,031	(12,980)	10,135	(4,363)
Financial debt, net	10,814	56,904	60,752	40,873	15,619	31,199

The increase in the Company's revenues in the second quarter of the year 2016, in an amount of US$ 45,346 thousand by comparison to the comparative quarter in the previous year derives primarily from an increase of approximately 41.8% in the revenues in the electrical consumer products segment, primarily from the air-conditioners operations in Israel and abroad and from the trading in brands operations.

The following is information on the results for the first half of each of the years from 2011 (in US$ thousands):

	The first half of 2016	The first half of 2015	The first half of 2014	The first half of 2013	The first half of 2012	The first half of 2011
Revenues	382,507	340,189	351,294	376,693	297,370	247,892
Operating income (loss)	22,627	9,815	(1,216)	15,645	13,215	12,262
Net income (loss)	15,274	6,392	(1,345)	11,002	4,491	8,788
Cash flows from operating activities	25,669	(10,552)	(10,825)	(13,950)	20,052	(18,222)
Financial debt, net	10,814	56,904	60,752	40,873	15,619	31,199

The first half of the year was typified by an improvement in the Company's results, which found expression in the significant increase in the Company's profitability whilst maintaining the gross profit rate and increasing efficiency regarding the operating costs. The operating income in the first half of 2016 amounted to US$ 22,627 thousand, as compared with an amount of US$ 9,815 thousand in the comparative period in the previous year.

The EBITDA in the reporting period amounted to US$ 27,397 thousand, as compared with an amount of US$ 14,214 thousand in the comparative period in the previous year, an increase of approximately 93%.

The improvement in the profitability has also led to a significant increase in the cash flows from operating activities. The cash flows generated by operating activities amounted to US$ 25,669 thousand in the first half of 2016, as compared with negative cash flows of US$ 10,552 thousand in the comparative period in the previous year.

Furthermore, as a result of the improvement in the management of the Company's working capital, the net financial debt has been reduced from US$ 23,714 thousand as of December 31, 2015 to US$ 10,814 thousand as of June 30, 2016.

B. 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 for details regarding 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:**

	June 30		December 31
	2016	2015	2015
	Unaudited		Audited
	U.S. Dollars in thousands		
Current assets	293,973	278,291	233,752
Non-current assets	112,954	109,013	105,331
Total assets	406,927	387,304	339,083
Current liabilities	233,645	240,951	187,822
Non-current liabilities	43,136	36,432	36,789
Equity	130,146	109,921	114,472
Total liabilities and equity	406,927	387,304	339,083

Assets

2.1.2 The total current assets as of 30.6.2016 amounted to US$ 293,973 thousand, as compared with US$ 233,752 thousand as of 31.12.2015. The change in the current assets derived primarily from an increase in trade receivables as a result of the increase in revenues in the current quarter, from an increase in inventory, primarily from the electrical consumer products, as a result of stocking up in advance for the summer season in the air-conditioner operations and from the initial consolidation of S.Z.'s current assets, see Note 5 to the interim consolidated financial statements.

2.1.3 The total non-current assets as of 30.6.2016 amounted to US$ 112,954 thousand, as compared with an amount of US$ 105,331 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 30.6.2016 amounted to US$ 233,645 thousand, as compared with US$ 187,822 thousand as of 31.12.2015. The change derived primarily from an increase in liabilities to suppliers, as a result of an increase in inventory as aforesaid, as a result of stocking up in advance for the summer season.

2.1.5 The non-current liabilities as of 30.6.2016 amounted to US$ 43,136 thousand, as compared with US$ 36,789 thousand as of 31.12.2015. The increase derived 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 30.6.2016 amounted to US$ 130,146 thousand, as compared with US$ 114,472 thousand as of 31.12.2015. The increase in the shareholders' equity derived from net income of US$ 15,274 thousand and from an increase of US$ 400 thousand in capital reserves.

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

	The period of six months ended June 30		The year ended December 31
	2016	2015	2015
Revenues from sales and the provision of services	382,507	340,189	710,855
Cost of sales and services	271,780	241,950	508,704
Gross profit	110,727	98,239	202,151
Selling and marketing expenses	85,192	83,628	168,451
Administrative and general expenses	5,792	5,343	11,356
Other income, net	2,884	602	1,945
Operating income before expenses relating to a structural change	22,627	9,870	24,289
Expenses relating to a structural change	-	(55)	(2,651)
Operating income	22,627	9,815	21,638
Financing income	299	1,411	503
Financing expenses	(2,683)	(2,714)	(4,692)
Company's share of the profits (losses) of companies accounted for at equity	(126)	553	336
Income before taxes on income	20,117	9,065	17,785
Taxes on income	4,843	2,673	5,186
Net income	15,274	6,392	12,599

3.1 **Revenues**

The Group's revenues in the months of January to June 2016 (hereinafter – "The reporting period") amounted to US$ 382,506 thousand, as compared with US$ 340,189 thousand in the comparative period in the previous year, reflecting an increase of approximately 12.4%, which derived primarily from an increase of approximately 32.3% in revenues in the electrical consumer products segment, primarily from the air-conditioner operations in Israel and abroad and from the trading in brands operations. (See Section 5 below in connection with reporting regarding business segments for additional details).

3.2 **Gross profit**

The gross profit rate in the reporting period stood at 28.9%, which was similar to the comparative period in the previous year. The gross profit in the reporting period amounted to US$ 110,727 thousand, as compared with US$ 98,239 thousand in the comparative period in the previous year, with the change deriving primarily from an increase in the volume of sales.

3.3 **Selling and marketing expenses**

Selling and marketing expenses in the reporting period amounted to US$ 85,192 thousand (22.3% of the sales turnover), as compared with US$ 83,628 thousand (24.6% of the sales turnover) in the comparative period in the previous year. The increase in the expenses derives primarily from the electrical consumer products segment, as a result of the consolidation of S.Z. and Electra Communication Ltd. ("Electra Communication") which were not included in the comparative figures and also from expenses that are connected to the increase in the revenues turnover in the consumer products segment.

3.4 **Administrative and general expenses**

Administrative and general expenses in the reporting period amounted to US$ 5,792 thousand (approximately 1.5% of the sales turnover), as compared with US$ 5,343 thousand (approximately 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$ 2,884 thousand as compared with US$ 602 thousand in the comparative period in the previous year. The other income in the reporting period derived primarily from the 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 financial statements.

3.6 **Operating income**

The operating income in the reporting period amounted to US$ 22,627 thousand as compared with US$ 9,815 thousand in the comparative period in the previous year, an increase of approximately 130%.

3.7 **Financing expenses, net**

The financing expenses, net in the reporting period amounted to US$ 2,384 thousand as compared with financing expenses, net of US$ 1,303 thousand in the comparative period in the previous year. The increase derived primarily from a decrease in income from exchange differences that were recorded 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$ 20,117 thousand, as compared with US$ 9.065 thousand in the comparative period in the previous year, an increase of approximately 121.9%.

3.9 **Taxes on income**

Tax expenses on income in the reporting period amounted to US$ 4,843 thousand, as compared with US$ 2,673 thousand in the comparative period in the previous year.

3.10 **Net income**

The net income in the reporting period amounted to US$ 15,274 thousand, as compared with US$ 6,392 thousand in the comparative period in the previous year, an increase of approximately 139%.

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

The EBITDA in the reported period amounted to US$ 27,397 thousand, as compared with US$ 14,214 thousand in the comparative period in the previous year, an increase of approximately 93%.

4. **The business results by quarters (U.S. Dollars in thousands):**

	Quarter 4-6/16	Quarter 1-3/16	Quarter 10-12/15	Quarter 7-9/15	Quarter 4-6/15
Revenues from sales and the provision of services	218,967	163,540	171,221	199,445	173,621
Cost of sales and services	156,142	115,638	122,052	144,701	122,808
Gross profit	62,825	47,902	49,169	54,744	50,813
Selling and marketing expenses	45,149	40,043	41,175	43,648	41,882
Administrative and general expenses	3,374	2,418	3,087	2,926	2,709
Other income, net	232	2,652	1,069	274	287
Operating income before expenses relating to a structural change	14,534	8,093	5,976	8,444	6,509
Expenses relating to a structural change	-	-	(1,590)	(1,006)	(55)
Operating income	**14,534**	**8,093**	**4,386**	**7,438**	**6,454**
Financing income	(758)	1,057	105	(1,013)	535
Financing expenses	(570)	(2,113)	(1,042)	(936)	(916)
Company share of the profits (losses) of companies accounted for at equity	-	(126)	(192)	(25)	300
Income before taxes on income	**13,206**	**6,911**	**3,257**	**5,464**	**6,373**
Taxes on income	3,386	1,457	826	1,688	1,585
Net Income	**9,820**	**5,454**	**2,431**	**3,776**	**4,788**

The Company's results have been affected in the second quarter of 2016 by the timing of the Passover festival. In 2016, the Passover festival took place in the middle of April and accordingly, the impact on the sales occurred in the second quarter of the year, whereas in 2015, the Passover festival fell at the beginning of April and its impact was felt in the first quarter of that year.

4.1 **Revenues**

The Group's revenues in the second quarter of 2016 amounted to US$ 218,967 thousand, as compared with US$ 173,621 thousand in the comparative period in the previous year, reflecting an increase of approximately 26.1%, which derived from an increase in revenues in the electrical consumer products segment, in the air-conditioning operations in Israel and abroad and from the trading in brands operations in Israel, together with an increase in sales in the electrical retail and do it yourself segments, which derived primarily from the timing of the Passover festival. (See section 5 below in connection with reporting regarding the business activity segments for additional details).

4.2 **Gross profit**

The gross profit rate in the second quarter of 2016 stood at 28.7% of the sales turnover, as compared with 29.3% in the comparative period in the previous year, constituting a decrease of 0.6%.

The decrease in the gross profit rate derived primarily from the special offers for the festival in the do it yourself segment.

4.3 **Selling and marketing expenses**

Selling and marketing expenses in the second quarter of 2016 amounted to US$ 45,149 thousand (approximately 20.6% of the sales turnover), as compared with US$ 41,882 thousand (24.1% of the sales turnover) in the comparative period in the previous year. The increase derives primarily from the consolidation of S.Z. and Electra Communications Ltd. ("Electra Communications"), which was not included in the comparative figures as well as from an increase in expenses that are connected to the increase in the sales turnover in the consumer products segment.

4.4 **Administrative and general expenses**

Administrative and general expenses in the second quarter of 2016 amounted to US$ 3,374 thousand (approximately 1.5% of the sales turnover), as compared with US$ 2,709 thousand (approximately 1.6% of the sales turnover) in the comparative period in the previous year.

4.5 **Other income, net**

Other income, net in the second quarter of 2016 amounted to US$ 232 thousand as compared with US$ 287 thousand in the comparative period in the previous year. The other income in the reporting period derived from the recognition of a relative part of the deferred capital gain on the sale of the service operations.

4.6 **Operating income**

The operating income in the second quarter of 2016 amounted to US$ 14,534 thousand as compared with US$ 6,454 thousand in the comparative period in the previous year, an increase of 125.2%

4.7 **Financing expenses, net**

The financing expenses, net in the second quarter of 2016 amounted to US$ 1,328 thousand as compared with financing expenses, net of US$ 381 thousand in the comparative period in the previous year. The change derives primarily from a decrease in income from exchange differences, which were recorded in the second quarter of the previous year.

4.8 **Income before taxes on income**

The income before taxes on income in the second quarter of 2016 amounted to US$ 13,206 thousand, as compared with US$ 6,373 thousand in the comparative period in the previous year, an increase of approximately 107%.

4.9 **Taxes on income**

Tax expenses on income in the second quarter of 2016 amounted to US$ 3,386 thousand, as compared with US$ 1,585 thousand in the comparative period in the previous year.

4.10 **Net income**

The net income in the in the second quarter of 2016 amounted to US$ 9,820 thousand, as compared with a net loss of US$ 4,788 thousand in the comparative period in the previous year, an increase of approximately 105%.

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

The EBITDA in the in the second quarter of 2016 amounted to US$ 16,942 thousand, as compared with US$ 8,984 thousand in the comparative period in the previous year, an increase of approximately 88.6%

5. Report in respect of operating segments

5.1 Revenues:

	Six months ended June 30			Three months ended June 30		
	2016	2015	rcentage change	2016	2015	rcentage change
	U.S. Dollars in thousands			U.S. Dollars in thousands		
Electrical consumer products	198,769	150,206	32.3%	116,731	82,309	41.8%
Electrical retail	142,691	144,020	(0.9%)	78,273	68,606	14.1%
"Do It Yourself"	70,089	68,976	1.6%	39,546	33,811	17.0%
Adjustments and other items	(29,042)	(23,013)	26.2%	(15,583)	(11,105)	40.3%
Total	382,507	340,189	12.4%	218,967	173,621	26.1%

5.2 Segmental income:

	Six months ended June 30			Three months ended June 30		
	2016	2015	Percentage change	2016	2015	Percentage change
	U.S. Dollars in thousands			U.S. Dollars in thousands		
Electrical consumer products	17,016	10,212	66.6%	11,331	6,601	71.7%
Electrical retail	4,457	2,236	99.3%	2,463	1,262	95.2%
"Do It Yourself"	4,592	2,242	104.8%	3,820	1,112	243.6%
Adjustments and other items	2,355	523	349.8%	294	243	20.7%
Total	28,420	15,213	86.8%	17,908	9,218	94.3%
Unallocated joint expenses	(5,793)	(5,343)	-	(3,374)	(2,709)	-
Expenses relating to a structural change	-	(55)	-	-	(55)	-
Operating income	22,627	9,815	130.5%	14,534	6,454	125.2%

5.3 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 electrical retail segment and in the "Do it yourself" segment.

(1) **Electrical consumer products**

The revenues turnover in the reporting period amounted to US$ 198,769 thousand, as compared with an amount of US$ 150,206 thousand in the comparative period in the previous year, an increase of 32.3%. The increase derived primarily from air-conditioner operations in Israel and abroad and from the trading in brands operations.

The segmental income in the reporting period amounted to US$ 17,016 thousand, as compared with an amount of US$ 10,212 thousand in the comparative period in the previous year.

The revenues turnover in the second quarter of 2016 amounted to US$ 116,731 thousand, as compared with an amount of US$ 82,309 thousand in the comparative period in the previous year, an increase of 41.8%. The increase derived primarily from air-conditioner operations in Israel and abroad and from the trading in brands operations. The segmental income in the second quarter of 2016 amounted to US$ 11,331 thousand, as compared with an amount of US$ 6,601 thousand in the comparative period in the previous year.

(2) **Electrical retail**

The revenues turnover in the reporting period amounted to US$ 142,691 thousand, as compared with an amount of US$ 144,020 thousand in the comparative period in the previous year, reflecting a decrease of approximately 0.9%. 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 2.9%. Sales per square meter in same stores amounted to a monthly average of US$ 700 per square meter as compared with US$ 673 per square meter in the comparative period in the previous year, an increase of approximately 4%.

The segmental income in the reporting period amounted to US$ 4,457 thousand, as compared with an amount of US$ 2,236 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.

The revenues turnover in the second quarter of 2016 amounted to US$ 78,273 thousand, as compared with an amount of US$ 68,606 thousand in the comparative period in the previous year, constituting an increase of approximately 14.1%. The increase in revenues in the second quarter of 2016 as compared to the previous year derived from the timing of the festival, as aforesaid. The same store sales in the segment, which operated fully in the quarter and in the comparative period in the previous year, increased by approximately 19.3%.

Sales per square meter in same stores amounted to a monthly average of US$ 769 per square meter as compared with US$ 646 per square meter in the comparative period in the previous year, an increase of approximately 19.1%.

The segmental income in the second quarter of 2016 amounted to US$ 2,463 thousand, as compared with an amount of US$ 1,262 thousand in the comparative period in the previous year.

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

The revenues turnover in the reporting period amounted to US$ 70,089 thousand, as compared with an amount of US$ 68,976 thousand in the comparative period in the previous year, an increase of approximately 1.6%. 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 5.8%.

Sales per square meter in same stores amounted to a monthly average of US$ 210 per square meter as compared with US$ 190 per square meter in the comparative period in the previous year, an increase of approximately 10.4%.

The segmental income in the reporting period amounted to US$ 4,592 thousand, as compared with an amount of US$ 2,242 thousand in the comparative period in the previous year. The increase in the segmental profitability derives from an improvement in the gross profitability as a result of the improvement of the commercial terms with suppliers and concession holders and the reduction of the operating costs.

The revenues turnover in the second quarter of 2016 amounted to US$ 39,546 thousand, as compared with an amount of US$ 33,811 thousand in the comparative period in the previous year, reflecting an increase of approximately 17%. The same store sales in the segment, which operated fully in the quarter and and in the comparative period in the previous year, increased by approximately 22.6%. The increase in the revenues turnover as compared to the previous year derived from the timing of the festival.

Sales per square meter in same stores amounted to a monthly average of US$ 239 per square meter in the quarter as compared with US$ 187 per square meter in the comparative period in the previous year, an increase of approximately 28.3%.

The segmental income in the second quarter of 2016 amounted to US$ 3,820 thousand, as compared with an amount of US$ 1,112 thousand in the comparative period in the previous year.

The increase in the segmental profitability in the quarter derives from an increase in revenues as a result of the timing of the festival as well as from an improvement in the operating costs as a result of the chain's efficiency moves in the past year.

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

5.4.1 The distribution of the sources of finance:

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	**2015**	**2016**	**2015**	**2015**
	U.S. Dollars in thousands				
Cash flows generated (absorbed) by					
Operating activities	25,669	(10,552)	24,507	(15,405)	29,403
Investment activities	(7,546)	(7,255)	(2,391)	(5,175)	(12,563)
Financing activities	(204)	17,124	(5,730)	18,067	(17,523)
Translation differences in respect of cash balances	(36)	(61)	(44)	(3)	(57)
Total increase (decrease) in cash	17,883	(744)	16,342	(2,516)	(740)

5.5 **<u>Cash flows from operating activities</u>**

The net cash generated by operating activities amounted to US$ 25,669 thousand in the reporting period, as compared with an amount of US$ 10,552 thousand absorbed by operating activities in the comparative period in the previous year.

The net cash generated by operating activities amounted to US$ 24,507 thousand in the second quarter of 2016, as compared with an amount of US$ 15,405 thousand absorbed by operating activities in the comparative period in the previous year. The improvement in the Company's cash flows derives from the profit and from an improvement in the management of the working capital.

5.6 **<u>Cash flows from investment activities</u>**

The net cash absorbed by investment activities in the reporting period amounted to US$ 7,546 thousand, as compared with an amount of US$ 7,255 thousand in the comparative period in the previous year. The cash absorbed by investment activities in the reporting period were used primarily for the purchase of fixed and other assets in an amount of US$ 5,076 thousand as well as payments of US$ 2,470 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.

The net cash absorbed by investment activities in the second quarter of 2016 amounted to US$ 2,391 thousand, as compared with an amount of US$ 5,175 thousand in the comparative period in the previous year. The cash absorbed by investment activities in the quarter were used primarily for the purchase of fixed and other assets.

5.7 **Cash flows from financing activities**

The net cash absorbed by financing activities amounted to US$ 204 thousand in the reporting period, as compared with net cash of US$ 17,124 thousand generated by financing activities in the comparative period in the previous year.

The net cash absorbed by financing activities amounted to US$ 5,730 thousand in the second quarter of 2016, as compared with net cash of US$ 18,067 thousand generated by financing activities in the comparative period in the previous year.

6. **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.

7. **Aspects of corporate governance**

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

On July 18, 2016, following the approval of the Remunerations committee on May 19, 2016 and the approval of the Company's Board of Directors on May 24, 2016, the general meeting of the Company's shareholders approved the updating of the Company's remunerations policy. For details, see the Company's corrective immediate report of July 26, 2016 (Document Number: 2016-01-090412) and the Company's immediate report of June 7, 2016 (document Number: 2016-01-046113), which are presented here by way of the referral.

7.2 **Report on the state of the liabilities of the Company and of the consolidated companies**

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 August 10, 2016.

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

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

9. **Significant events after the reporting period**

See Note 8 to the interim consolidated financial statements.

Daniel Salkind	**Ze'ev Kalimi**
Chairman of the Board of Directors	**Chief Executive Officer**

August 10, 2016

In this Report of the Board of Directors for the six months ended June 30, 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 June 30, 2016 (US$ 1.- = NIS 3.846).

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703

Tel: +972 -3-6232525
Fax:+972 -3-5622555
ey.com

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 June 30, 2016, the condensed consolidated statements of profit or loss and other comprehensive income, the statements of changes in equity and the statements of cash flows, for the periods of six and 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 these interim periods, in accordance with International Accounting Standard IAS 34, "Interim Financial Reporting" and they are also responsible for the preparation of financial information for these interim periods in accordance with Part D' of the Securities Regulations (Periodic and Immediate Reports) 1970. Our responsibility is to express a conclusion on the financial information for these interim periods 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
August 10, 2016

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	June 30		December 31
	2016	2015 (*)	2015 (*)
	Unaudited		Audited
	U.S. Dollars in thousands		
Current assets			
Cash and cash equivalents	22,316	4,429	4,433
Trade receivables	124,228	102,970	96,948
Other receivables (including related companies)	10,587	14,528	11,076
Inventory	136,842	156,364	121,295
	293,973	278,291	233,752
Non-current assets			
Trade receivables and other receivables	2,359	4,139	3,360
Investments in companies accounted for at equity	-	5,299	2,399
Fixed assets	36,759	35,867	36,066
Goodwill	60,000	54,910	55,844
Intangible assets	13,750	6,430	7,136
Deferred taxes	86	2,368	526
	112,954	109,013	105,331
	406,927	387,304	339,083

(*) 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

	June 30		December 31
	2016	2015 (*)	2015 (*)
	Unaudited		Audited
	U.S. Dollars in thousands		
Current liabilities			
Credit from banking entities and others	17,529	40,532	9,546
Suppliers and providers of services	152,925	139,873	119,337
Other payables	63,191	59,658	58,939
Payables for the acquisition and sale of operations	-	888	-
	233,645	240,951	187,822
Non-current liabilities			
Loans from banking entities	15,601	20,801	18,201
Other liabilities	16,119	12,222	13,161
Employee benefit liabilities	4,861	3,298	4,719
Deferred taxes	6,555	111	708
	43,136	36,432	36,789
Total equity	130,146	109,921	114,472
	406,927	387,304	339,083

(*) 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.

August 10, 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 OTHER COMPREHENSIVE INCOME
CONVENIENCE TRANSLATION INTO US DOLLARS

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	**2015 (*)**	**2016**	**2015 (*)**	**2015 (*)**
	Unaudited				**Audited**
	U.S. Dollars in thousands				
Revenues from sales and the provision of services	382,507	340,189	218,967	173,621	710,855
Cost of sales and services	271,780	241,950	156,142	122,808	508,704
Gross profit	110,727	98,239	62,825	50,813	202,151
Selling and marketing expenses	85,192	83,628	45,149	41,882	168,451
Administrative and general expenses	5,792	5,343	3,374	2,709	11,356
Other income, net	2,884	602	232	287	1,945
Operating income before expenses relating to a structural change	22,627	9,870	14,534	6,509	24,289
Expenses relating to a structural change	-	55	-	55	2,651
Operating income	22,627	9,815	14,534	6,454	21,638
Financing income	299	1,411	(758)	535	503
Financing expenses	(2,683)	(2,714)	(570)	(916)	(4,692)
Company's share of the profits (losses) of companies accounted for at equity, net	(126)	553	-	300	336
Income before taxes on income	20,117	9,065	13,206	6,373	17,785
Taxes on income	4,843	2,673	3,386	1,585	5,186
Net income	15,274	6,392	9,820	4,788	12,599
Other comprehensive income (loss) (after tax effects):					
<u>Amounts that will never be reclassified to profit or loss:</u>					
Loss on the re-measurement of defined benefit plans	-	-	-	-	(728)
<u>Amounts that will be classified or reclassified to profit or loss, when specific conditions are met:</u>					
Adjustments deriving from the translation of financial statements of foreign operations	62	(894)	(4)	(94)	(844)
Gain (loss) on cash flow hedging transactions	-	330	-	(2,037)	(267)
Transfer to the statement of profit or loss in respect of cash flow hedging transactions	-	(1,516)	-	(531)	(2,233)
Total components that will be classified or reclassified to profit or loss	62	(2,080)	(4)	(2,662)	(3,344)
Total other comprehensive income (loss)	62	(2,080)	(4)	(2,662)	(4,072)
Total comprehensive income	15,336	4,312	9,816	2,126	8,527

(*) 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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
CONVENIENCE TRANSLATION INTO US DOLLARS

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015 (*)	2016	2015 (*)	2015 (*)
	Unaudited				Audited
	U.S. Dollars				
Basic net earnings per share attributed to equity holders in the company	0.71	0.30	0.46	0.22	0.58
Diluted net earnings per share attributed to equity holders in the company	0.69	0.30	0.44	0.22	0.57
Weighted average number of shares used in the calculation of the net earnings per share	21,632,257	21,632,257	21,632,257	21,632,257	21,632,257

(*) 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 CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS

	Share capital	Share premium	Treasury shares	Capital reserve on transaction with a controlling interest	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 (accumulated losses)	Total equity
	Unaudited								
	U.S. Dollars in thousands								
Balance at January 1, 2016 (audited)	18,684	108,046	(1,308)	594	(1,688)	2,212	(1,556)	(10,512)	114,472
Total comprehensive income	-	-	-	-	62	-	-	15,274	15,336
Cost of share-based payment	-	-	-	-	-	338	-	-	338
Balance at June 30, 2016	18,684	108,046	(1,308)	594	(1,626)	2,550	(1,556)	4,762	130,146

	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	Accumulated losses	Total equity
	Unaudited									
	U.S. Dollars in thousands									
Balance at January 1, 2015 (audited)	18,684	108,046	(1,308)	594	2,500	(844)	1,594	(828)	(23,111)	105,327
Total comprehensive income (loss)	-	-	-	-	(1,186)	(894)	-	-	6,392	4,312
Cost of share-based payment	-	-	-	-	-	-	282	-	-	282
Balance at June 30, 2015	18,684	108,046	(1,308)	594	1,314	(1,738)	1,876	(828)	(16,719)	109,921

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	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 (accumulated losses)	Total equity
	Unaudited								
	U.S. Dollars in thousands								
Balance at April 1, 2016	18,684	108,046	(1,308)	594	(1,622)	2,360	(1,556)	(5,058)	120,140
Total comprehensive income (loss)	-	-	-	-	(4)	-	-	9,820	9,816
Cost of share-based payment	-	-	-	-	-	190	-	-	190
Balance at June 30, 2016	18,684	108,046	(1,308)	594	(1,626)	2,550	(1,556)	4,762	130,146

	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	Accumulated losses	Total equity
	Unaudited									
	U.S. Dollars in thousands									
Balance at April 1, 2015	18,684	108,046	(1,308)	594	3,882	(1,644)	1,670	(828)	(21,507)	107,589
Total comprehensive income (loss)	-	-	-	-	(2,568)	(94)	-	-	4,788	2,126
Cost of share-based payment	-	-	-	-	-	-	206	-	-	206
Balance at June 30, 2015	18,684	108,046	(1,308)	594	1,314	(1,738)	1,876	(828)	(16,719)	109,921

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	Accumulated losses	Total equity
	Audited									
	U.S. Dollars in thousands									
Balance at January 1, 2015 (Audited)	18,684	108,046	(1,308)	594	2,500	(844)	1,594	(828)	(23,111)	105,327
Total comprehensive income (loss)	-	-	-	-	(2,500)	(844)	-	(728)	12,599	8,527
Cost of share-based payment	-	-	-	-	-	-	618	-	-	618
Balance at December 31, 2015 (Audited)	18,684	108,046	(1,308)	594	-	(1,688)	2,212	(1,556)	(10,512)	114,472

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015 (*)	2016	2015 (*)	2015 (*)
	Unaudited				Audited
	U.S. Dollars in thousands				
Cash flows from operating activities					
Net income	15,274	6,392	9,820	4,788	12,599
Adjustments required to present cash flows from operating activities:					
Adjustments to profit and loss items:					
Depreciation and amortization	4,770	4,399	2,408	2,530	10,211
Cost of share-based payment	338	282	190	206	618
Deferred capital gain on the sale of operations which was recognized in the period	(481)	(602)	(232)	(287)	(1,137)
Gain on the re-measurement of an investment in an initially consolidated investee company	(1,779)	-	-	-	(808)
The Company's share of the losses (profits) of companies accounted for at equity, net	459	(553)	-	(300)	(336)
Deferred taxes, net	4,324	2,123	3,407	1,333	4,541
Change in employee benefit liabilities, net	57	(115)	71	(45)	314
	7,688	5,534	5,844	3,437	13,403
Changes in assets and liabilities items:					
Increase in trade receivables (including long term receivables)	(21,691)	(12,030)	(23,016)	(11,487)	(2,095)
Decrease in other receivables	1,393	35	1,585	1,695	2,501
Decrease (increase) in inventory	(12,026)	(24,731)	1,640	(7,244)	12,747
Increase (decrease) in suppliers and providers of services	33,320	13,176	23,559	(4,540)	(10,797)
Increase (decrease) in other payables (including payables for the acquisition of operations)	1,711	1,072	5,075	(2,054)	1,045
	2,707	(22,478)	8,843	(23,630)	3,401
Net cash generated (absorbed) by operating activities	25,669	(10,552)	24,507	(15,405)	29,403

(*) 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 CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015 (*)	2016	2015 (*)	2015 (*)
	Unaudited				Audited
	U.S. Dollars in thousands				
Cash flows from investment activities					
Purchase of fixed assets and intangible assets	(5,076)	(5,532)	(2,391)	(4,313)	(10,004)
Acquisition of consolidated company that was consolidated in the past (A)	-	-	-	-	(1,014)
Acquisition of an initially consolidated company (B)	(2,470)	-	-	-	-
Payment in respect of the acquisition and the sale of operations	-	(1,723)	-	(862)	(2,585)
Consideration from the disposal of marketable securities, net and charged cash	-	-	-	-	1,040
Net cash absorbed by investment activities	(7,546)	(7,255)	(2,391)	(5,175)	(12,563)
Cash flows from financing activities					
Receipt of long-term loans from banking entities	-	26,001	-	13,001	26,001
Repayment of long-term loans from banking entities	(2,600)	(4,121)	(1,300)	(4,120)	(6,720)
Short-term credit from banking entities, net	2,396	(4,756)	(4,430)	9,186	(36,804)
Net cash generated (absorbed) by financing activities	(204)	17,124	(5,730)	18,067	(17,523)
Translation difference in respect of cash and cash equivalent balances	(36)	(61)	(44)	(3)	(57)
Increase (decrease) in cash and cash equivalents	17,883	(744)	16,342	(2,516)	(740)
Cash and cash equivalents at the beginning of the period	4,433	5,173	5,974	6,945	5,173
Cash and cash equivalents at the end of the period	22,316	4,429	22,316	4,429	4,433

(*) 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 CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2016	2015 (*)	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)	-	-	-	-	257
Fixed assets	-	-	-	-	23
Intangible assets	-	-	-	-	1,299
Goodwill	-	-	-	-	934
Deferred taxes	-	-	-	-	(344)
Gain as a result of an increase to control	-	-	-	-	(808)
Investment in a company accounted for at equity	-	-	-	-	(347)
	-	-	-	-	1,014
(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)	(417)	-	-	-	-
Fixed assets	194	-	-	-	-
Intangible assets	7,847	-	-	-	-
Goodwill	4,156	-	-	-	-
Deferred taxes	(1,962)	-	-	-	-
Liability in respect of a put option	(3,547)	-	-	-	-
Other non-current liabilities	(83)	-	-	-	-
Investment in a company accounted for at equity	(1,939)	-	-	-	-
Gain as a result of an increase to control	(1,779)	-	-	-	-
	2,470	-	-	-	-
(C) Significant activities, not involving cash flows					
Acquisition of fixed assets and intangible assets on credit from suppliers	1,933	2,070	1,933	2,070	2,984
Additional cash flow information:					
Cash paid during the year for:					
Interest	923	938	603	430	2,575
Taxes on income	457	320	287	161	692
Cash received during the year for:					
Interest	66	17	27	5	48
Taxes on income	366	-	-	-	76

(*) 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.

Note 1 - General

These financial statements have been prepared in a condensed format as of June 30, 2016 and for the periods of six months and 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 June 30, 2016 and for the periods of six and of three months ended on that date.

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 June 30, 2016 (NIS 3.846 = 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 June 30, 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$ 2.6 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$ 2.6 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, which has been recorded in the reporting period, 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$ 3.5 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	130
Trade receivables	4,510
Other receivables	882
Inventories	3,461
Fixed assets	194
Intangible assets	7,847
	17,024
Credit from banking entities and others	(5,567)
Suppliers and providers of services	(1,294)
Other payables	(2,331)
Employee benefit liabilities	(83)
Deferred tax	(1,962)
	(11,237)
Net identifiable assets, net	5,787
Goodwill arising on the acquisition	4,157
Total acquisition cost	9,944

The acquisition cost	U.S. Dollars in thousands
Cash paid	2,600
Less the amount that has been attributed to the clearance of previous relationships between the Company and the seller	(849)
Liability in respect of a put option	3,547
Fair value of the existing investment at the time of the acquisition	4,646
Total acquisition cost	9,944

Cash outflow on the acquisition	U.S. Dollars in thousands
Cash and cash equivalents in the acquired company at the time of the acquisition	(130)
Cash paid in consideration for the acquisition	2,600
Net cash	2,470

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

A. 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$ 0.26 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$ 8.15. 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$ 178.9 thousand at the time of the grant, which was determined in accordance with the binomial model.

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$ 0.26 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$ 8.85. 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$ 229.8 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.

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 six months ended June 30, 2016					
External income	169,727	142,691	70,089	-	382,507
Inter-segmental income	29,042	-	-	(29,042)	-
Total income	198,769	142,691	70,089	(29,042)	382,507
Depreciation and amortization	2,477	622	1,021	650	4,770
Other income	481	624	-	1,779	2,884
Segmental income	17,016	4,457	4,592	2,355	28,420
Unallocated joint expenses					5,793
Operating income					22,627

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

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
	Unaudited				
	U.S. Dollars in thousands				
For the period of six months ended June 30, 2015					
External income	127,193	144,020	68,976	-	340,189
Inter-segmental income	23,013	-	-	(23,013)	-
Total income	150,206	144,020	68,976	(23,013)	340,189
Depreciation and amortization	2,117	708	1,019	368	4,212
Other income	601	-	1	-	602
Segmental income	10,212	2,236	2,242	523	15,213
Unallocated joint expenses					5,343
Operating income before expenses to a structural change					9,870
Expenses relating to a structural change					55
Operating income					9,815

	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 June 30, 2016					
External income	101,148	78,273	39,546	-	218,967
Inter-segmental income	15,583	-	-	(15,583)	-
Total income	116,731	78,273	39,546	(15,583)	218,967
Depreciation and amortization	1,301	317	499	291	2,408
Other income	232	-	-	-	232
Segmental income	11,331	2,463	3,820	294	17,908
Unallocated joint expenses					3,374
Operating income					14,534

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

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
	Unaudited				
	U.S. Dollars in thousands				
For the period of three months ended June 30, 2015					
External income	71,204	68,606	33,811	-	173,621
Inter-segmental income	11,105	-	-	(11,105)	-
Total income	82,309	68,606	33,811	(11,105)	173,621
Depreciation and amortization	1,273	381	506	182	2,342
Other income	286	-	1	-	287
Segmental income	6,601	1,262	1,112	243	9,218
Unallocated joint expenses					2,709
Operating income before expenses to a structural change					6,509
Expenses relating to a structural change					55
Operating income					6,454

	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	261,790	307,068	141,997	-	710,855
Inter-segmental income	52,023	-	-	(52,023)	-
Total income	313,813	307,068	141,997	(52,023)	710,855
Depreciation and amortization	4,201	1,420	2,020	770	8,411
Other income	1,137	-	-	808	1,945
Segmental income	23,152	5,020	5,689	1,784	35,645
Unallocated joint expenses					11,356
Operating income before expenses to a structural change					24,289
Expenses relating to a structural change					2,651
Operating income					21,638

Note 8 – Significant events after the reporting period

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 Commissioner's decision, the subsidiary company has filed an appeal and in parallel an amendment to the agreement was signed on July 19, 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 September 30, 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 July 11, 2016, a lawsuit was filed in the Central Region District Court, together with an application for recognition as a class action in case number 22114-07-16 Cohen et al V. Electra Consumer Products (1951) Ltd. et al. The plaintiffs allege that Electra Consumer Products (1951) Ltd. (hereinafter: "The subsidiary company") and additional companies that are not related to the Company and/or to the Company's investee companies, imported and marketed air-conditioners, which do not meet the energy efficiency requirements under the Sources of Energy (Energy efficiency, energetic marking and the energetic rating of air-conditioners) Regulations – 2004. The alleged damage for all of the members of the group, which the plaintiffs seek to represent amounts in their assessment to approximately US$ 260 million.

In the assessment of the Company's legal advisors, despite the preliminary stage at which the proceedings are to be found, the probability that the application of approval and the lawsuit against the subsidiary company will be accepted, is lower than 50 % and accordingly no provision has been recorded in the financial statements in respect of this lawsuit.

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