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, 2017
(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, 2017.

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, 2016, which was published on March 8, 2017 (Document Number: 2017-01-022599) (hereinafter: "**The periodic report**").

1. General

1.1 Description of the Group's business

The Group operates in two 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 electrical retail segment**"); It should be mentioned that until March 1, 2017, the Company operated within the framework of the "Do It Yourself" segment. Following the sale of the "Ace- Auto Depot" operations, as described in Note 6 to the interim consolidated financial statements, the Company has discontinued the operations of that segment.

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

The first quarter of 2017 has been characterized by the completion of transaction, the execution of which was begun by the Group in 2016, and including inter alia, the sale of the operations and the acquisition of control in new investee companies.

- On March 1, 2017, a transaction for the sale of the operations of the "Ace" and "Auto Depot" chains was completed, for consideration of US$ 40 million. The first payment, in an amount of US$ 27.5 was paid at the time of the completion and the balance of the consideration will be paid in two equal payments on the passage of 12 months from the time of the completion and 18 months from the time of the completion (see Note 6 to the interim consolidated financial statements). As a result of the aforesaid, the Company has recorded net income of US$ 20 million from discontinued operations.
- On March 30, 2017, a transaction was completed for the sale of the water bar operations for consideration of US$ 2.7 million. As a result of the aforesaid, the Company recorded a net capital gain of US$ 2.6 million on the sale of the operations at the time of the completion of the transaction, which was recorded under other income, net (see Note 4E to the interim consolidated financial statements for additional details).
- On January 25, 2017, a transaction was completed for the acquisition of control in Alpha Telecom Ltd. (hereinafter – "Alpha") – which holds the concession for the Chinese Huawei cellular brand in Israel and in the territory of the Palestinian Authority, pursuant to an agreement dated November 17, 2016, which was amended on May 7, 2017. As of the reporting date, the Company holds 100% of Alpha's share capital. In accordance with the said agreement, the Company has estimated the future payment in respect of the acquisition at an amount of US$ 2.8 million, which is included under other long-term liabilities (see Note 5 to the interim consolidated financial statements for additional details).
- On April 5, 2017, following the approval of the Ministry of Communications and of the Anti-Trust Commissioner, a transaction was completed for the acquisition of 100% of the issued and paid up share capital of Golan Telecom Ltd. (hereinafter: "Golan"), for consideration of US$ 96 million (see Note 4A to the interim consolidated financial statements for additional details).

The acquisitions of Alpha and Golan constitute a considerate part of the Company's activity to develop an increase its operations in the communications field.

- On April 6, 2017, the Company signed with the municipality of Rishon Le'Zion on an agreement for the acquisition of land in Rishon Le'Zion, on which the Group's offices and the Company's plant are locations, for consideration of US$ 51 million (see Note 9A 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
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Current assets	392,045	272,092	290,889
Non-current assets	118,834	121,588	116,773
Total assets	510,879	393,680	407,662
Current liabilities	302,901	222,466	223,643
Non-current liabilities	44,297	43,996	41,698
Equity	163,681	127,218	142,321
Total liabilities and equity	510,879	393,680	407,662

Assets

2.1.2 The total current assets as of 31.3.2017 amounted to US$ 392,045 thousand, as compared with US$ 290,889 thousand as of 31.12.2016. The change in the current assets derived primarily from the balance of cash in trust for the acquisition of Golan Telecom in an amount of US$ 96 (see Note 4A to the interim consolidated financial statements for additional details).

2.1.3 The total non-current assets as of 31.3.2017 amounted to US$ 118,834 thousand, as compared with an amount of US$ 116,773 thousand as of 31.12.2016. The change derives primarily from an increase in long-term receivables in respect of future considerations from the sale of the operations of the "Ace" and the "Auto Depot" chains and from the sale of the water bar operations and from a net increase in goodwill and intangible assets deriving from the initial consolidation of Alpha Telecom (see Note 5 to the interim consolidated financial statements for additional details), which were offset by a decrease in those assets and in fixed assets as a result of the sale of the operations of the "Ace" and the "Auto Depot" chains (see Note 4E and Note 6 to the interim consolidated financial statements for additional details).

Liabilities

2.1.4 The total current liabilities as of 31.3.2017 amounted to US$ 302,901 thousand, as compared with US$ 223,643 thousand as of 31.12.2016. The increase in the current liabilities derived primarily from an increase in liabilities to banking corporations and others in respect of the investment in Golan Telecom (see Note 4A to the interim consolidated financial statements for additional details), which was partially offset by a decrease in current liabilities deriving from the sale of the operations of the "Ace" and the "Auto Depot" chains (see Note 6 to the interim consolidated financial statements for additional details).

2.1.5 The non-current liabilities as of 31.3.2017 amounted to US$ 44,297 thousand, as compared with US$ 41,968 thousand as of 31.12.2016. The increase derived primarily from the liabilities payable for the future payment in respect of the Alpha shares (see Note 5 to the interim consolidated financial statements for additional details).

2.1.6 **Shareholders' equity**

The equity as of 31.3.2017 amounted to US$ 163,681 thousand, as compared with US$ 142,321 thousand as of 31.12.2016. The increase in the shareholders' equity in the reporting period derived primarily from net income of US$ 26,859 thousand, in the reporting period, which was offset by a dividend of US$ 5.5 million, which was declared and which was paid after the reporting date (see Note 4G to the interim consolidated financial statements for additional details).

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

	The period of three months ended March 31		The year ended December 31
	2017	**2016**	**2016**
Revenues from sales and the provision of services	154,665	140,833	657,967
Cost of sales and services	116,171	105,682	493,214
Gross profit	38,494	35,151	164,753
Selling and marketing expenses	29,485	27,646	120,957
Administrative and general expenses	2,629	2,562	12,457
Other income, net	2,123	2,808	3,513
Operating income	8,503	7,751	34,852
Financing income	1,476	1,090	1,577
Financing expenses	(2,052)	(2,174)	(4,646)
Company's share of the losses of companies accounted for at equity	-	(133)	(133)
Income before taxes on income	7,927	6,534	31,650
Taxes on income	1,139	1,274	7,787
Income from continuing operations	6,788	5,260	23,863
Income from discontinued operations, net	20,071	514	6,513
Net income	26,859	5,774	30,376

3.1 **Revenues**

The Group's revenues in the first quarter of 2017 (hereinafter – "The reporting period") amounted to US$ 154,665 thousand, as compared with US$ 140,833 thousand in the comparative period in the previous year, an increase of approximately 9.8%. The increase in revenues derived both from an increase in the electrical consumer products segment, as the result of an increase in the sales of the air-conditioning operations in Israel and in the trading and brands segment, and from the initial consolidation of Alpha in the reporting period, as well as from an increase in the retail segment, which derived as a result of the timing of the Passover festival, which occurred in the first half of April this year, as compared to the previous year, in which the festival occurred in the second half of April (see Note 5 to the interim consolidated financial statements for additional details; see Section 4 below for additional details in connection with reporting on the fields of business activity).

3.2 **Gross profit**

The gross profit rate in the reporting period stood at 25% of the sales turnover, which is similar to the comparative period in the previous year.

The gross profit in the reporting period amounted to US$ 38,494 thousand, as compared with US$ 35,151 thousand in the comparative period in the previous year, an increase of approximately 9.5%.

3.3 **Selling and marketing expenses**

Selling and marketing expenses in the reporting period amounted to US$ 29,485 thousand (19.1% of the sales turnover), as compared with US$ 27,646 thousand (19.6% of the sales turnover) in the comparative period in the previous year. The increase derives primarily from the electrical consumer products segment, as a result of an increase in advertising expenses and from the initial consolidation of Alpha in the reporting period (see Note 5 to the interim consolidated financial statements for additional details).

3.4 **Administrative and general expenses**

Administrative and general expenses in the reporting period amounted to US$ 2,629 thousand (1.7% of the sales turnover), as compared with US$ 2,562 thousand (1.8% 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$ 2,123 thousand as compared with US$ 2,808 thousand in the comparative period in the previous year. The other income, net in the reporting period primarily include a capital gain on the sale of the water bar operations (see Note 4E to the interim consolidated financial statements for additional details), which was offset by special costs in respect of the acquisition of subsidiary companies. The other income, net in the comparative period in the previous year primarily included a gain from the remeasurement of the investment in S.Z., which was initially consolidated in the previous year.

3.6 **Operating income**

The operating income in the reporting period amounted to US$ 8,503 thousand as compared with US$ 7,751 thousand in the comparative period in the previous year, an increase of approximately 9.7%.

3.7 **Financing expenses, net**

The financing expenses, net in the reporting period amounted to US$ 576 thousand as compared with financing expenses, net of US$ 1,084 thousand in the comparative period in the previous year. The decrease in the financing expenses derived primarily from an increase in income from exchange differences.

3.8 **Income before taxes on income**

The income before taxes on income in the reporting period amounted to US$ 7,927 thousand, as compared with US$ 6,534 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$ 1,139 thousand, as compared with US$ 1,274 thousand in the comparative period in the previous year.

3.10 **Income from continuing operations**

The income from continuing operations in the reporting period amounted to US$ 6,788 thousand, as compared with US$ 5,260 thousand in the comparative period in the previous year.

3.11 **Income from discontinued operations, net**

The income from discontinued operations, net in the reporting period amounted to US$ 20,071 thousand, as compared with US$ 514 thousand in the comparative period in the previous year (see Note 6 to the interim consolidated financial statements for additional details).

3.12 **Net income**

The net income in the reporting period amounted to US$ 26,859 thousand, as compared with a US$ 5,774 thousand in the comparative period in the previous year, an increase of approximately 365.1%.

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

The EBITDA in the reported period amounted to US$ 10,959 thousand, as compared with US$ 9,700 thousand in the comparative period in the previous year.

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

	Quarter 1-3/17	Quarter 10-12/16	Quarter 7-9/16	Quarter 4-6/16	Quarter 1-3/16
Revenues from sales and the provision of services	154,665	138,836	188,306	189,992	140,833
Cost of sales and services	116,171	103,360	141,355	142,817	105,682
Gross profit	38,494	35,476	46,951	47,175	35,151
Selling and marketing expenses	29,485	28,538	32,269	32,504	27,646
Administrative and general expenses	2,629	3,028	3,295	3,572	2,562
Other income, net	2,123	244	215	246	2,808
Operating income	8,503	4,154	11,602	11,345	7,751
Financing income	1,476	(21)	1,284	(776)	1,090
Financing expenses	(2,052)	(911)	(1,024)	(537)	(2,174)
Company share of the profits (losses) of companies accounted for at equity	-	-	-	-	(133)
Income before taxes on income	7,927	3,222	11,862	10,032	6,534
Taxes on income	1,139	537	3,418	2,558	1,274
Income from continuing operations	6,788	2,685	8,444	7,474	5,260
Income from discontinued operations	20,071	1,041	2,033	2,925	514
Net Income	26,859	3,726	10,477	10,399	5,774

4. **Report in respect of operating segments**

4.1 **Revenues:**

	Three months ended March 31		
	2017	**2016**	**Percentage change**
	U.S. Dollars in thousands		
Electrical consumer products	95,996	86,872	10.5%
Electrical retail	72,275	68,213	6%
Adjustments and other items	(13,606)	(14,252)	-
Total	154,665	140,833	9.8%

	Three months ended March 31		
	2017	**2016**	**Percentage change**
	U.S. Dollars in thousands		
Segmental income			
Electrical consumer products	9,774	6,020	62.4%
Electrical retail	1,720	2,112	(18.5%)
Adjustments and other items	(362)	2,181	-
Total segmental income	11,132	10,313	7.9%
Unallocated joint expenses	2,629	2,562	-
Operating income	8,503	7,751	-

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

As aforesaid, in 2017 the Passover festival occurred in the first half of April, as compared with 2016 in which it occurred in the second half of April. The timing of the Passover festival has an impact primarily in the retail segment.

(1) **Electrical consumer products**

The revenues turnover in the reporting period amounted to US$ 95,996 thousand, as compared with an amount of US$ 86,872 thousand in the comparative period in the previous year, an increase of 10.5%. The increase in sales in the segment derived primarily from an increase in the volume of sales in air-conditioner operations in Israel and from the trading in brands operations and from the initial consolidation of Alpha Telecom in the reporting period.

The segmental income in the reporting period amounted to US$ 9,774 thousand, as compared with US$ 6,020 thousand in the comparative period in the previous year, an increase of 62.4%. The increase in the segmental income derived primarily from an increase in the income in the air-conditioner operations in Israel and from the trading in brands operations and it includes non-recurring income of US$ 2,612 thousand deriving from the sale of the water bars operations.

The segmental income rate stood at 10.2% of the sales turnover in the reporting period, as compared with 6.9% in the comparative period in the previous year. The segmental profit rate in the reporting period, after eliminating the capital gain on the sale of the water bar operations, stood at 7.5%, an increase of 19% as compared with the segmental income rate in the previous year.

(2) **Electrical retail**

The revenues turnover in the reporting period amounted to US$ 72,275 thousand, as compared with an amount of US$ 68,213 thousand in the comparative period in the previous year, an increase of approximately 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 10.2%. The increase 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$ 722 per square meter as compared with US$ 647 per square meter in the comparative period in the previous year, an increase of 11.5%.

The segmental income in the reporting period amounted to US$ 1,720 thousand, as compared with an amount of US$ 2,112 thousand in the comparative period in the previous year, a decrease of approximately 18.5%. The segmental income in the comparative period in the previous year included non-recurring income of US$ 661 thousand, the elimination of which results in the segmental income having increased from US$ 1,451 thousand in the comparative period in the previous year to US$ 1,720 thousand in the reporting period, an increase of 18.6%.

The segmental profit rate in the reporting period stood at approximately 2.4% of the revenues turnover, as compared with a rate of approximately 2.1% in the comparative period in the previous year, after eliminating the non-recurring income.

4.3. **Distribution of sources of finance (see also section 18 in part A of the Company's periodic report for the year 2016)**

4.3.1 The distribution of the sources of finance:

	Three months ended March 31		Year ended December 31
	2017	**2016**	**2016**
	U.S. Dollars in thousands		
Cash generated (absorbed) by			
Operating activities	(2,262)	1,230	53,686
Investment activities	(72,108)	(5,458)	(11,875)
Financing activities	61,103	5,852	(5,267)
Translation differences in respect of cash balances	(103)	8	(150)
Increase (decrease) in cash and cash equivalents	(13,370)	1,632	36,394

4.4 **Cash flows from operating activities**

The net cash absorbed by operating activities amounted to US$ 2,262 thousand, as compared with an amount of US$ 1,230 thousand generated by operating activities in the comparative period in the previous year. The change derives primarily from an increase in inventory balances in advance of the Passover festival and from an increase in the balance of other receivables in respect of future payments that are connected to the sale of the water bars operations and the sale of the operations of the "Ace" and the "Auto Depot" chains (see Note 4E and Note 6 to the interim consolidated financial statements for additional details).

4.5 **Cash flows from investment activities**

The net cash absorbed by investment activities amounted to US$ 72,108 thousand, as compared with an amount of US$ 5,458 thousand in the comparative period in the previous year. The cash absorbed by investment activities were used primarily for the depositing of monies in trust for the acquisition of Golan Telecom, in an amount of US$ 96,366 thousand (see Note 4A to the interim consolidated financial statements for additional details), less the net consideration from the sale of the operations of the "Ace" and the "Auto Depot" chains in an amount of US$ 27,009 thousand (see Note 6 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$ 61,103 thousand, as compared with net cash of US$ 5,852 thousand in the comparative period in the previous year. The cash generated by financing activities included primarily the receipt of loans from banking corporations and others in an amount of US$ 74,339 thousand for the purpose of investment in Golan Telecom (see Note 4A to the interim consolidated financial statements for additional details), less the net repayment of short-term and long-term loans, in an amount of US$ 3,599 thousand and the payment of a dividend in an amount of US$ 9,637 thousand.

5. **Aspects of corporate governance**

5.1 **Self purchase plan**

For details regarding the self purchase of the Company's shares, see Note 4B to the interim consolidated financial statements.

5.2 **Disclosure regarding the internal auditor**

On April 25, 2017, following the recommendation of the Audit Committee, the Board of Directors approved the multi-annual audit program for the years 2017 – 2019.

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

Details regarding the state of the Company’s liabilities as at March 31, 2017, are included in this report by way of the referral to such data, which are included in the Company's immediate report regarding the state of the Company's liabilities according to their repayment dates, which the company has published in parallel to this report.

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

See the report of the Board of Directors as of December 31, 2016.

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

See Note 9 to the interim consolidated financial statements.

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

May 24, 2017

In this Report of the Board of Directors for the three months ended March 31, 2017, 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, 2017 (US$ 1.- = NIS 3.632).

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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, 2017, 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 B).

KOST FORER GABBAY & KASIRER	Tel-Aviv
Certified Public Accountants	May 24, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Current assets			
Cash and cash equivalents	27,718	6,326	41,088
Monies held in trust for the acquisition of a subsidiary company	96,366	-	-
Trade receivables	116,862	106,249	121,254
Other receivables (including related companies)	18,170	12,882	9,158
Inventory	117,871	146,635	119,389
Assets in respect of discontinued operations	15,058	-	-
	392,045	272,092	290,889
Non-current assets			
Trade receivables and other receivables	8,680	3,442	2,008
Fixed assets	27,150	38,963	38,119
Goodwill	63,974	63,536	63,536
Intangible assets	19,030	15,264	13,110
Deferred taxes	-	383	-
	118,834	121,588	116,773
	510,879	393,680	407,662

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
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Current liabilities			
Credit from banking corporations and others	34,046	23,275	15,933
Liabilities to banking corporations and others for an investment in a subsidiary company	74,339	-	-
Suppliers and providers of services	112,057	137,741	125,743
Other payables (including related companies)	67,534	61,450	72,330
Dividend payable	5,507	-	9,637
Liabilities attributed to assets in respect of discontinued operations	9,418	-	-
	302,901	222,466	223,643
Non-current liabilities			
Loans from banking corporations	12,390	17,896	13,767
Other liabilities	17,697	17,401	12,084
Employee benefit liabilities	4,864	5,073	5,072
Deferred taxes	9,346	3,626	10,775
	44,297	43,996	41,698
Total equity	163,681	127,218	142,321
	510,879	393,680	407,662

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

May 24, 2017			
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

	Three months ended March 31		Year ended December 31
	2017	2016 *)	2016 *)
	Unaudited		Audited
	U.S. Dollars in thousands		
Revenues from sales and the provision of services	154,665	140,833	657,967
Cost of sales and services	116,171	105,682	493,214
Gross profit	38,494	35,151	164,753
Selling and marketing expenses	29,485	27,646	120,957
Administrative and general expenses	2,629	2,562	12,457
Other income, net	2,123	2,808	3,513
Operating income	8,503	7,751	34,852
Financing income	1,476	1,090	1,577
Financing expenses	(2,052)	(2,174)	(4,646)
Company's share of the losses of companies accounted for at equity, net	-	(133)	(133)
Income before taxes on income	7,927	6,534	31,650
Taxes on income	1,139	1,274	7,787
Income from continuing operations	6,788	5,260	23,863
Income from discontinued operations, net	20,071	514	6,513
Net income	26,859	5,774	30,376
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	-	-	(83)
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	(276)	71	(361)
Total components that will be classified or reclassified to profit or loss	(276)	71	(361)
Total other comprehensive income (loss)	(276)	71	(444)
Total comprehensive income	26,583	5,845	29,932

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

*) Reclassified, see Note 6.

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

	Three months ended March 31		Year ended December 31
	2017	2016 *)	2016 *)
	Unaudited		Audited
	U.S. Dollars in thousands (except earnings per share data)		
Basic net earnings per share attributed to equity holders in the company (in U.S. Dollars):			
Income from continuing operations	0.31	0.24	1.10
Income from discontinued operations, net	0.93	0.03	0.30
	1.24	0.27	1.40
Diluted net earnings per share attributed to equity holders in the company (in U.S. Dollars):			
Income from continuing operations	0.29	0.24	1.06
Income from discontinued operations, net	0.88	0.02	0.29
	1.17	0.26	1.35
Weighted average number of shares used in the calculation of the net earnings per share	21,632,257	21,632,257	21,632,257
Weighted average number of shares in the calculation of the diluted net earnings per share	22,855,999	22,087,242	22,535,756

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

*) Reclassified, see Note 6.

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	Total equity
	Unaudited								
	U.S. Dollars in thousands								
Balance at January 1, 2017 (audited)	19,785	114,412	(1,385)	630	(2,148)	3,150	(1,731)	9,608	142,321
Total comprehensive income (loss)	-	-	-	-	(276)	-	-	26,859	26,583
Cost of share-based payment	-	-	-	-	-	284	-	-	284
Dividend declared for the company's shareholders	-	-	-	-	-	-	-	(5,507)	(5,507)
Balance at March 31, 2017	19,785	114,412	(1,385)	630	(2,424)	3,434	(1,731)	30,960	163,681

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	Total equity
	Unaudited								
	U.S. Dollars in thousands								
Balance at January 1, 2016 (audited)	19,785	114,412	(1,385)	630	(1,787)	2,342	(1,648)	(11,132)	121,217
Total comprehensive income	-	-	-	-	71	-	-	5,774	5,845
Cost of share-based payment	-	-	-	-	-	156	-	-	156
Balance at March 31, 2016	19,785	114,412	(1,385)	630	(1,716)	2,498	(1,648)	(5,358)	127,218

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	Total equity
	Unaudited								
	U.S. Dollars in thousands								
Balance at January 1, 2016 (Audited)	19,785	114,412	(1,385)	630	(1,787)	2,342	(1,648)	(11,132)	121,217
Total comprehensive income (loss)	-	-	-	-	(361)	-	(83)	30,376	29,932
Cost of share-based payment	-	-	-	-	-	808	-	-	808
Dividend declared for the company's shareholders	-	-	-	-	-	-	-	(9,636)	(9,636)
Balance at December 31, 2016 (Audited)	19,785	114,412	(1,385)	630	(2,148)	3,150	(1,731)	9,608	142,321

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
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Cash flows from operating activities			
Net income	26,859	5,774	30,376
Adjustments required to present cash flows from operating activities:			
Adjustments to profit and loss items:			
Depreciation and amortization	2,776	2,501	11,577
Cost of share-based payment	284	156	808
Capital gain on the sale of operation	(2,612)	-	-
Deferred capital gain on the sale of operations which was recognized in the period	(213)	(263)	(941)
Capital gain on the disposal of discontinued operations	(20,071)	-	-
Gain on the re-measurement of an investment in an initially consolidated jointly controlled company	-	(1,884)	(1,884)
The Company's share of the losses of companies accounted for at equity, net	-	486	486
Deferred taxes, net	(364)	972	8,492
Change in employee benefit liabilities, net	(249)	(14)	(67)
	(20,449)	1,954	18,471
Changes in assets and liabilities items:			
Decrease (increase) in trade receivables (including long term receivables)	8,387	1,403	(13,005)
Decrease (increase) in other receivables	(12,566)	(203)	3,372
Decrease (increase) in inventory	(18,683)	(14,471)	12,482
Increase (decrease) in suppliers and providers of services	12,960	10,336	(842)
Increase (decrease) in other payables (including payables for the acquisition of operations)	1,230	(3,563)	2,832
	(8,672)	(6,498)	4,839
Net cash generated (absorbed) by operating activities	(2,262)	1,230	53,686

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
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Cash flows from investment activities			
Purchase of fixed assets and intangible assets	(2,846)	(2,843)	(9,260)
Acquisition of previously consolidated company (A)	-	(2,615)	(2,615)
Net consideration from the sale of operation	27,009	-	-
Acquisition of an initially consolidated company (B)	95	-	-
Deposit of monies in trust for the acquisition of a subsidiary company	(96,366)	-	-
Net cash absorbed by investment activities	(72,108)	(5,458)	(11,875)
Cash flows from financing activities			
Dividend paid	(9,636)	-	-
Receipt of long-term loans from banking corporations and others for an investment in a subsidiary company	74,339	-	-
Repayment of long-term loans from banking corporations	(1,376)	(1,376)	(5,506)
Repayment of short-term loans from others	(8,425)	-	-
Short-term credit from banking corporations, net	6,201	7,228	239
Net cash generated (absorbed) by financing activities	61,103	5,852	(5,267)
Translation difference in respect of cash and cash equivalent balances	(103)	8	(150)
Increase (decrease) in cash and cash equivalents	(13,370)	1,632	36,394
Cash and cash equivalents at the beginning of the period	41,088	4,694	4,694
Cash and cash equivalents at the end of the period	27,718	6,326	41,088

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
	2017	2016	2016
	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)	-	(442)	(442)
Fixed assets	-	205	205
Intangible assets	-	8,310	8,310
Goodwill	-	4,401	4,401
Deferred taxes	-	(2,077)	(2,077)
Liability in respect of a put option		(3,756)	(3,756)
Other non-current liabilities		(88)	(88)
Gain as a result of an increase to control	-	(1,884)	(1,884)
Investment in a company accounted for at equity	-	(2,054)	(2,054)
	-	2,615	2,615
(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)	(15,289)	-	-
Fixed assets	65	-	-
Intangible assets	7,693	-	-
Goodwill	10,283	-	-
Employee benefit liabilities, net	(63)	-	-
Long-term conditional liabilities	(2,784)	-	-
	(95)	-	-
(C) Significant activities, not involving cash flows			
Acquisition of fixed assets and intangible assets on credit from suppliers	2,229	2,771	2,509
Dividend payable	5,507	-	9,636
(D) Additional cash flow information:			
Cash paid during the year for:			
Interest	313	339	2,204
Taxes on income	386	179	1,547
Cash received during the year for:			
Interest	11	40	58
Taxes on income	1	-	1,189

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, 2017 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, 2016 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.

B. 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, 2017 (NIS 3.632 = 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. On January 2, 2017, the Company signed with Golan Telecom Ltd. (hereinafter – "Golan") and with Golan's shareholders, a private cellular communications company (one of the cellular operators that operate in Israel, which is owned by third parties, on an agreement for the acquisition of all (100%) of Golan's issued and paid-up share capital (hereinafter – "The acquisition agreement").

The following are the main points of the transaction:

1. Within the context of the transaction, Golan's existing shareholders received an amount of US$ 96 million in respect of the shares in Golan and in respect of the repayment of the full amount of the existing shareholders' loans, and Golan is acquired on a cash free debt free basis, as defined in the acquisition agreement.

Note 4 – <u>Significant events in the reporting date</u> (Continued)

A. (Continued)

2. In addition, the acquisition agreement includes declarations, commitments and indemnification arrangements.

3. In parallel, on January 2, 2017, the Company, Cellcom Israel Ltd. (hereinafter - "Cellcom"), which is a provider of communications services (primarily cellular), and Golan's main creditor prior to the acquisition transaction, entered into a commitment under a network sharing agreement for third and fourth generation networks and hosting services for the second generation network, which also arranged payment differentials from the past in respect of in-country roaming services up to December 31, 2015. On March 2, 2017, an appendix was signed by the parties, amending the sharing and usage agreement and on March 15, 2017, the parties signed a second amendment amending the sharing and usage agreement (hereinafter, together – "The sharing agreement").

   The following are the main points of the sharing agreement:

   a. The parties will cooperate in the development of third and fourth generation networks and future joint technologies (hereinafter – "The joint network"), which will be done using both of the parties' 3G and 4G frequencies, which will be operated by a new, separate corporation (hereinafter – "The new corporation"), which will be owned equally by the parties. The two parties will own or will receive impenetrable usage rights (hereinafter – IRU) in the active components in the join network in equal shares, and they will grant IRU to each other and to the new corporation on their joint network. For that purpose, Golan has purchased holdings in half of the active components of the existing third and fourth generation network that is owned by Cellcom, and the routine future investments in those active components will be divided by the parties in equal shares. Each party will operate the core of an independent network. In addition, Cellcom will provide Golan and the new corporation with IRU for the passive components of the joint network. Cellcom will provide services to the new corporation as a sub-contractor.

   b. Cellcom will provide Golan with hosting services in relation to its second generation network.

   c. The sharing agreement is for a period of ten years, as from the time of the completion. The termination of the sharing agreement before the passage of the fist ten years, as the result of a breach by Golan, as defined in the agreement, will entitle Cellcom to agreed compensation of US$ 165 million, with the addition of VAT.

   d. The average annual consideration, which Golan will pay to Cellcom under the sharing agreement, including Golan's share of the future joint investments in the radio network, in the course of the period of the agreement, is expected to amount to approximately US$ 58 million to US$ 61 million, with the addition of VAT, in accordance with the number of Golan's subscribers and their usage of the joint network and Cellcom's second generation network.

   e. Close to the time of the completion of the acquisition agreement, Cellcom made a loan available to Golan in an amount of US$ 36 million for a period of 10 years, which is repayable in six equal semi-annual payments as from the eighth year in the period of the agreement (interest and linkage differentials will be accumulated and will be paid as from the sixth year). The loan is secured by a second ranking floating charge on Golan's assets and rights or some other equivalent collateral.

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

A. (Continued)

3. (Continued)

f. The agreement includes certain arrangements in relation to separation and the addition of an additional sharing party under similar terms to Golan (including Marathon 018 Xphone Ltd. (hereinafter – "Xphone"). On March 2, 2017, the Company on the one hand, Cellcom on the second hand and Xphone on the third hand entered into a commitment under a tripartite agreement that arranges the relationships between them in relation to hosting on and sharing the fourth generation network in accordance with the principles that were set between the Company and Cellcom in the sharing agreement.

g. The sharing agreement entered force upon the receipt of the regulatory approvals that are required, including the approvals of the Anti-Trust Commissioner and the Ministry of Communications and the completion of the acquisition agreement by the Company, as described above.

4. On March 9, 2017, approval was received from the Anti-Trust Authority for the acquisition of the Golan shares under the following conditions: On each of the following three quarters, Golan is to offer to the public at least one special offer, which will continue for at least three weeks, in which cellular packages are to be offered at a price that is less than US$ 8.3 per line, under conditions that are not inferior from the conditions for the US$ 6.9 package, as appear on Golan's website at the determining date, as defined in the Authority's decision, which is March 8, 2017. In addition, on March 9, 2017, the Anti-Trust Authority approved the sharing agreement.

5. On March 16, 2017, the Ministry of Communication gave its approval for the acquisition of the Golan shares and for the sharing agreement.

6. On April 5, 2017, the acquisition agreement was completed by the Company and the sharing agreement entered force. At the time of the completion of the transaction, Golan adopted the sharing agreement and the sharing agreement became an agreement between Golan and Cellcom.

7. The Company has financed the acquisition out of shareholders' equity (approximately US$ 22 million) and by means of long-term external financing of approximately US$ 74 million (of which approximately US$ 36 million is a loan from Cellcom, see Section 3E above and US$ 38 million is a loan from a banking corporation. The loans were endorsed to Golan at the time of the completion).

B. On January 8, 2017, the Company's Board of Directors approved a plan for the self purchase of shares in an extent of up to US$ 17 million, in the period commencing on January 9, 2017 and ending on January 8, 2020. The future purchases will be executed from time to time and at varying volumes in accordance with the Company's management's judgment and in accordance with possibilities in the market. As of this time, no purchases have been made under the plan.

C. On January 12, 2017, the Company became aware that on December 21, 2016 the Committee for the Reduction of Concentration had published an update of the list of concentrating bodies under the Law for the Promotion of Competition and the Reduction of Concentration – 2013 ("The Concentration Law") within the context of which Elco Ltd. (hereinafter – "Elco") and its subsidiary companies, including the Company have been added to the list of the significant non-financial corporations. The classification of the Company and the entire Elco Group in the list of non-financial corporations has implications, as stated in the Concentration Law, where inter alia, such a classification could affect the Company’s ability to enter into commitment with significant non-financial bodies and to receive rights over vital infrastructure.

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

C. (Continued)

However, the Company is unable, as of the time of the signature of the financial statements, whether such classification will have a significant impact on its operations, in their current format.

D. On February 5, 2017, Elco's Board of Directors approved an issue to institutional investors, within the framework of a private issue of 1,160,000 non-marketable call option warrants (hereinafter – "The option warrants"), each of which is exercisable into one regular share in the Company that is owned by the parent company, constituting approximately 5.36% of the Company's issued and paid up share capital and of the voting rights in it, in a state in which they are clear and free and as is, in consideration for an exercise price of US$ 17.14 per share (subject to adjustments). The price for each option warrant was set in a tender for institutional investors, which was held on February 5, 2017 and set at an amount of US$ 0.30. The last date for the exercise of the option warrants was March 30, 2017.

Up to March 27, 2017, all of the call option warrants that had been issued, as aforesaid, were exercised and Elco's holding rate in the Company was reduced to 54.92%.

E. On February 9, 2017, a subsidiary company entered into a commitment under an agreement with a third party (hereinafter – "The purchaser") for the sale of its operations in the water bar field, including the inventory of water bars, the inventory of spare parts, rights and duties pursuant to agreements with customers (except for the considerations that may be due in respect of all of the agreements with customers that were signed or renewed before January 1, 2017), rights and duties pursuant to an agreement with the manufacturer of the water bars, intellectual property rights and licenses, and a limited authorization for the use of the "Electra Bar" brand, for a period of 12 months from the time of the completion of the transaction, all of which as detailed in the agreement (hereinafter –"The assets being sold"). In consideration for the assets being sold (apart from the inventory), the purchaser will pay an amount of US$ 2.7 million, in 24 equal monthly payments commencing on May 1, 2017, with the addition of VAT as required by law.

At the time of the completion of the transaction, the purchaser paid consideration for the quantity of inventory being purchased, pursuant to what is determined in the agreement. The purchaser is entitled to the subsidiary company's direct profits from the operations being sold, as defined in the agreement, for the period from January 1, 2017 and until the time of the completion of the transaction, in accordance with the formula that is set in the agreement.

On March 30, 2017, the transaction was completed.

As a result of the aforesaid, the Company recorded a capital gain of US$ 2.6 million from the sale of the operations at the time of the completion of the transaction, which was recorded under other income.

F. On February 16, 2017, the periods of office of the external directors Ms. Shlomit Eshbol and Mr. Gilad Aviram came to an end. On February 19, 2017, following the approval of the Company's general meeting,, Ms. Yael Resnik Kramer and Mr. Yair Cohen were appointed as external directors in the Company, and they were provided with letters of indemnity in accordance with the version that is customary in the Company.

G. On March 8, 2017, the Company decided to distribute a dividend of US$ 5.5 million, reflecting an amount of US$ 0.25 per share. The determining date and the ex-date is April 4, 2017 and the distribution date was April 20, 2017.

H. For information regarding a transaction for the acquisition of 70% of the share capital of Alpha Telecom Ltd., see Note 5 below.

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

I. For information regarding the sale of the operations in the do it yourself segment, see Note 6 below.

J. For information regarding the allocation of options to office holders in the Company, see Note 7 below.

Note 5 – Business combinations

Further to what is stated in Note 19D14 to the annual financial statements, on November 17, 2016, the subsidiary company entered into a commitment with Alpha Telecom Ltd. (hereinafter – "Alpha") and with Alpha's shareholders (hereinafter – "The sellers"), who are independent third parties who are not connected to the Company or the controlling interests in the Company, under an agreement for the acquisition of 70% of Alpha's issued and paid up share capital (hereinafter – "The Alpha shares"). Alpha is the exclusive distributor in Israel and in the Palestinian Authority for cellular products of Huawei Investment and Holding Co. Ltd. (hereinafter – "The manufacturer").

On January 25, 2017, and after the crucial terms for the transaction had been met, the transaction was completed in accordance with its terms. Within the context of the completion of the transaction, the subsidiary company has made financing in an overall amount of US$ 8.5 million available to Alpha, which Alpha has used to repay shareholders' loans to the sellers, in an amount of US$ 5.8 million, as well as a payment to the manufacturer. Upon the completion of the transaction, the Company has made guarantees available to banks in support of Alpha's liabilities.

On May 7, 2017, the subsidiary company and the sellers signed in an amendment to the agreement for the acquisition of the shares (hereinafter – "The amendment").

The following are the main points of the amendment:

1. At the time of the signing of the amendment (a) the sellers waived the receipt of consideration in respect of the sale of the Alpha shares, in an amount of US$ 0.9 million from the subsidiary company; (b) one of the seller undertook to inject an amount of US$ 1.9 million into Alpha as share premium, under the terms and at the times that are detailed in the amendment to the agreement; and (c) all of the sellers' shareholders' loans to Alpha were converted into share premium, retrospectively as at January 1, 2017.

2. At the time of the signing of the amendment, the sellers transferred the balance of their shares to the subsidiary company, in a free state (as is), such that the subsidiary company will hold 100% of Alpha's issued and paid up share capital, which is against a future payment that will be paid on June 30, 2021, the amount of which will be determined on April 30, 2021, in accordance with the mechanisms that are set in the amendment and solely that such consideration shall not exceed the amount set in the amendment.

3. Within the framework of the measurement of the fair value, the Company's external appraiser estimated the future payment at an amount of US$ 2.8 million. The Company presents this future payment under other non-current liabilities.

Note 5 – Business combinations (Continued)

3. (Continued)

The fair value of Alpha Telecom's identifiable assets and liabilities at the time of the acquisition:

	Fair value
	U.S. Dollars in thousands
Cash and cash equivalents	95
Trade receivables	10,504
Other receivables	2,289
Inventories	5,135
Fixed assets	65
Intangible assets	7,693
	25,781
Credit from banking corporations and others	(11,975)
Suppliers and providers of services	(8,588)
Other payables	(12,654)
Employee benefit liabilities	(63)
Identifiable liabilities, net	(7,499)
Goodwill arising on the acquisition	10,283
Conditional liability in respect of the transfer of the balance of the shares / the cost of the acquisition	2,784

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 – Disposal group held for sale and discontinued operations

On December 14, 2016, the Company and the subsidiary company (hereinafter – "The sellers") entered into a commitment under an agreement with an independent third party, which is not connected to the Company or to the controlling interests in the Company (hereinafter – "The purchaser"), for the sale of the operations of the "Ace" and "Auto Depot" chains (hereinafter – "The assets being sold"). Within the framework of the sale agreement, the sellers sold all of the rights and the assets (tangible and intangible), used by the sellers in connection with the operation of the chains, to the purchaser, as well as the liabilities in connection with the agreements being transferred, as defined in the sale agreement, in connection with the warranty for products, in connection with debts and payments to third parties (including suppliers) as detailed in the balance sheet as at December 31, 2016 and additional charges, which are detailed in the sale agreement. From January 1, 2017 and up to the time of the completion, the sellers continued to manage the network's operations, for the purchaser, in a closed financial system, all of which in a manner in which the purchaser will be entitled to all of the rights, and responsible for all of the liabilities, in respect of the operation of the chain during that period. On March 1, 2017, the time of the completion of the transaction, the assets being sold were transferred to the purchaser, retroactively as at January 1, 2017.

Note 6 – Disposal group held for sale and discontinued operations (Continued)

The sellers have undertaken that the tangible shareholders' equity of the assets being sold as of January 1, 2017, will not be less than the amount set in the agreement. Furthermore, it has been determined by the parties that by April 30, 2017, an accounting will be conducted between the parties, inter alia, in relation to the tangible shareholders' equity that has been transferred and in relation to the operating results in the months of January and February 2017.

The consideration for the assets being sold stood at an amount of US$ 40 million with the addition of VAT as required by law. The first payment, in an amount of US$ 27.5 million, was paid at the time of the completion, and the balance of the consideration, with the addition of agreed annual interest, will be paid in two equal payments on the passage of 12 months from the time of the completion and on the passage of 18 months from the time of the completion.

On March 1, 2017, and after the crucial conditions for the transaction had been met, the transaction was completed in accordance with its conditions.

The Company has classified the operating results as discontinued operations in its financial statements, including the reclassification of the comparative figures.

A. The following are data on the operating results that are attributed to the discontinued operations**:**

	The period of three months ended March 31		The year ended December 31
	2017	2016	2016
	U.S. Dollars in thousands		
Revenues from sales and the provision of services	-	32,343	154,057
Cost of sales and services	-	16,769	83,156
Gross profit	-	15,574	70,901
Selling and marketing expenses	-	14,756	61,770
Other income (loss), net	25,785	-	(27)
Operating income	25,785	818	9,104
Financing income	-	29	40
Financing expenses	-	(65)	(232)
Taxes on income	5,714	268	2,399
Income from discontinued operations, net	20,071	514	6,513

B. The following are data on the net cash flows, which are attributed to the discontinued operations, and which were generated (absorbed) by those operations**:**

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	U.S. Dollars in thousands		
Operating activities	(6,067)	(4,652)	12,559
Investment activities	26,798	(827)	(1,896)
Financing activities	7,293	5,479	(10,662)

Note 7 – Share-based payment transactions

On March 29, 2017, the Company's Board of Directors approved the allocation of 60,790 options, which are exercisable into regular shares of par value US$ 0.28 each in the Company which will constitute approximately 0.28% 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$ 20.4 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$ 338 thousand at the time of the grant, which was determined in accordance with the binomial model.

Note 8 – Operating segments

A. **General**

The Company reports on two 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 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.

It should be mentioned that up to March 1, 2017, the Company operated within the framework of the Do it Yourself segment. Following the sale of the "Ace- Auto Depot" operations, as stated in Note 6, the Company has discontinued its operations in that segment. In light of the aforesaid, and in accordance with the provisions of International Financial Reporting Standard 8 - Segmental Operations, the Company has restated the segmental data for previous periods in order to adjust it to the current reporting format.

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 purpose 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.

Note 8 – Operating segments (Continued)

B. Report on segmental activities

	Electrical consumer products segment	The electrical retail segment	Adjustments and other	Total
	Unaudited			
	U.S. Dollars in thousands			
For the period of three months ended March 31, 2017				
External income	82,390	72,275	-	154,665
Inter-segmental income	13,606	-	(13,606)	-
Total income	95,996	72,275	(13,606)	154,665
Depreciation and amortization	1,618	517	322	2,457
Other income (expenses)	2,825	-	(702)	2,123
Segmental income (loss)	9,774	1,720	(362)	11,132
Unallocated joint expenses				2,629
Operating income				8,503

	Electrical consumer products segment	The electrical retail segment	Adjustments and other	Total
	Unaudited			
	U.S. Dollars in thousands			
For the period of three months ended March 31, 2016 (*)				
External income	72,620	68,213	-	140,833
Inter-segmental income	14,252	-	(14,252)	-
Total income	86,872	68,213	(14,252)	140,833
Depreciation and amortization	1,246	322	380	1,948
Other income	263	661	1,884	2,808
Segmental income	6,020	2,112	2,181	10,313
Unallocated joint expenses				2,562
Operating income				7,751

*) Reclassified, see Note 6.

Note 8 – Operating segments - (Continued)

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

	Electrical consumer products segment	The electrical retail segment	Adjustments and other	Total
	Audited			
	U.S. Dollars in thousands			
For the year ended December 31, 2016 (*)				
External income	347,648	310,319	-	657,967
Inter-segmental income	61,497	-	(61,497)	-
Total income	409,145	310,319	(61,497)	657,967
Depreciation and amortization	5,836	1,783	1,320	8,939
Other income	966	663	1,884	3,513
Segmental income	35,492	8,704	3,113	47,309
Unallocated joint expenses				12,457
Operating income				34,852

(*) Reclassified, see Note 6.

Note 9 – Significant events in the reporting period and thereafter

A. On April 6, 2017, the Company signed on an agreement for the purchase of the land on which the Group's offices and its plant are located in Rishon Le'Zion, from the Rishon Le'Zion municipality (hereinafter – "The agreement" and "The municipality", respectively). The agreement is subject to the approval of the municipal council within 60 days from the time of its signature (hereinafter – "The crucial term").

The following are the main points of the agreement:

1. At the time of the closure, the Company will acquire the full ownership rights in an area of approximately 51,700 square meters, constituting part of parcel 16 in block 5032 in Rishon Le'Zion (hereinafter – "Parcel 16") from the municipality, as they may be at the time of the closure (hereinafter – "The property being sold"). The closure time will be within 60 months from the time of the signing of the agreement (hereinafter – "The closure time").

   As at the time of the signing of the agreement, the Company has leased parcel 16 (with an area of approximately 55,700 square meters) from the municipality, for a leasing period ending on May 21, 2021. It has been agreed within the framework of the agreement that from the time that the crucial term is met, the leasing agreements will be cancelled and the Company will not be required to pay leasing payments or any other payments whatsoever in respect of the leasing, with the parties confirming that they have no complaint and/or claim against each other, unless the crucial term is not complied with or in the event that the agreement is cancelled, in which case the lease will continue to be in force.

2. The Company will pay the municipality an amount of approximately US$ 51 million with the addition of VAT as required by the law, as follows:

   (a) A first payment of US$ 25 million will be paid to the municipality no later than 45 business days from the time of the compliance with the crucial term and the receipt of the agreement following its signature by the municipality. Against the execution of the first payment, a cautionary comment will be registered in favor of the Company on the municipality's rights in Parcel 16.

Note 9 – Significant events in the reporting period and thereafter

A. (Continued)

2. (Continued)

(b) The second payment (the balance of the consideration) in an amount of US$ 26 million, will be paid to the municipality at the time of the closure. The second payment will bear nominal interest, as determined in the agreement, which will be accumulated as from the time at which the crucial term is met and up to the time of the actual payment, and which will be paid to the municipality once every six months. The Company will be entitled to bring forward the execution of the payments of the consideration, in whole or in part, in accordance with its exclusive and absolute judgment. Accordingly, the closure time will also be brought forward. It should be mentioned that the consideration has been set taking note of the full rights that are afforded under the new urban construction plan that has entered force recently, in accordance with which the zoning of the property being sold has been changed to employment, trading and clean industry.

3. As from the time at which the crucial term is met, the Company will lease an area of approximately 4,000 square meters, which is located within parcel 16, which is designated for expropriation for public purposes (and which is used by the Company as of the time of the signing of the agreement). In addition, the Company will continue to make use of the areas, which are included in the area being sold.

4. The Company will pay purchase tax at a rate of 6% in respect of the said purchase. The betterment levy that applies to the property being sold, in respect of each urban construction plan that has been approved and/or published for the giving of validity, up to the time of the Company's signature on the agreement, including (but not solely) a betterment levy in respect of the whole new urban construction plan, will apply to the municipality, except for a betterment levy in respect of a relief and/or exceptional use that may be requested by the Company.

5. The Company intends to finance the first payment for the purchase of the property being sold by means of the taking up of a loan, secured by a mortgage on the property being sold, from a banking corporation. The period in which the loan is to be repaid is expected to be 7 years.

6. The Company intends to take action to promote, initiate and realize an income-generating real estate project on the said site, in accordance with the new urban construction plan.

On April 27, 2017, the crucial term on the issue of the approval of the agreement by the municipal council was met.

B. On April 19, 2017, 90,000 options, which had been granted to a senior manager in the Group within the framework of the allocation to senior managers in the Company, which was executed on March 26, 2015, were exercised into 55,156 regular shares of par value US$ 0.28 in the Company. The balance of the Company's issued and paid up share capital after the said exercise amounts to 21,803,481 regular shares of par value US$ 0.28 (including 116,068 par value treasury shares).

C. On May 11, 2017, the Company's Board of Directors approved the allocation of 50,000 option, which are exercisable into regular shares of par value US$ 0.28 in the Company, which following their allocation constituted approximately 0.23% of the issued and paid up share capital at the time of the approval, to a manger in the Group, which was done in accordance with the existing options plan in the Company. The exercise price of the options is US$ 22.3. 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.

Note 9 – Significant events in the reporting period and thereafter

C. (Continued)

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$ 284 thousand at the time of the grant, which was determined in accordance with the binomial model.

As at the time of the publication of the financial statements, the allocation has not yet been made, since it is subject to the stock exchange's approval for the listing of the exercise shares for trading.

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