

ELCO LIMITED

Interim Consolidated Financial Statements

As of September 30, 2016

Convenience Translation into U.S. Dollars

(Unaudited)

ELCO LIMITED

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Auditors' review report to the shareholders of Elco Ltd.

Introduction

We have reviewed the accompanying financial information of Elco Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated balance sheet as of September 30, 2016, the condensed consolidated statements of profit or loss, of comprehensive income, of changes in equity and of cash flows, for the periods of nine months and 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 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 this interim financial information based on our review.

We did not review the condensed financial information for the interim periods of certain consolidated companies, whose assets constitute approximately 19% of the total consolidated assets as of September 30, 2016, and whose revenues constitute approximately 6% and approximately 7% of the total consolidated revenues for the periods of nine months and of three months ended on that date, respectively. Furthermore, we did not review the condensed financial information for these interim periods of companies that are accounted for at equity, the investment in which amounted to approximately US\$ 67,931 thousand as of September 30, 2016 and the Group's share of their profits (losses) amounted to approximately US\$ 1,654 thousand and approximately US\$ (409) thousand in the periods of nine months and of three months ended on that date, respectively. The condensed financial information of those companies for the interim periods was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to amounts included for those companies, is based on the review reports of the other auditors.

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 and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, from all material perspective, in accordance with International Accounting Standard IAS 34.

In addition to what is stated in the previous paragraph, based on our review and on the review reports of the other auditors, 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, November 27, 2016

ELCO LIMITED**CONSOLIDATED BALANCE SHEETS**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | September 30 | | December 31 |
|--|---------------------|------------------|--------------------|
| | 2016 | 2015 | 2015 |
| | Unaudited | | Audited |
| Current assets | | | |
| Cash and cash equivalents | 222,356 | 123,195 | 204,742 |
| Short-term investments | 44,980 | 37,352 | 33,243 |
| Trade receivables | 365,719 | 297,561 | 290,449 |
| Other accounts receivables | 256,806 | 279,058 | 249,892 |
| Inventory, inventory of real estate and residential apartments | 224,682 | 258,378 | 246,852 |
| Assets held for sale | 5,438 | 263,012 | 256,513 |
| | <u>1,119,981</u> | <u>1,258,556</u> | <u>1,281,691</u> |
| Non-current assets | | | |
| Long-term receivables | 26,163 | 22,762 | 21,213 |
| Receivables for concession arrangement for the provision of services | 27,131 | 29,525 | 29,066 |
| Investment in entities accounted for at equity | 312,411 | 311,460 | 304,627 |
| Long-term inventory of real estate | 16,444 | 18,460 | 16,616 |
| Income generating assets | 132,271 | 160,079 | 127,363 |
| Fixed assets | 85,464 | 77,780 | 79,063 |
| Goodwill and other intangible assets | 203,127 | 187,714 | 188,008 |
| Deferred tax assets | 2,880 | 8,734 | 5,286 |
| | <u>805,891</u> | <u>816,514</u> | <u>771,242</u> |
| | <u>1,925,872</u> | <u>2,075,070</u> | <u>2,052,933</u> |

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

November 27, 2016
Date of approval of financial statements

ELCO LIMITED**CONSOLIDATED BALANCE SHEETS**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | September 30 | | December 31 |
|--|---------------------|------------------|--------------------|
| | 2016 | 2015 | 2015 |
| | Unaudited | | Audited |
| Current Liabilities | | | |
| Credit from banking institutions and others | 93,226 | 73,988 | 94,158 |
| Bonds - current maturities | 62,762 | 119,628 | 119,003 |
| Suppliers and providers of services | 401,622 | 350,049 | 386,589 |
| Other payables | 289,286 | 311,584 | 298,492 |
| Liabilities in respect of assets held for sale | 3,185 | 60,808 | 33,453 |
| | <u>850,081</u> | <u>916,057</u> | <u>931,695</u> |
| Long-Term Liabilities | | | |
| Liabilities to banks and financial institutions | 76,621 | 175,806 | 184,936 |
| Bonds | 372,228 | 455,968 | 419,000 |
| Other liabilities | 66,345 | 55,352 | 59,941 |
| Employee benefit liabilities | 14,288 | 12,816 | 14,352 |
| Deferred taxes | 51,702 | 43,015 | 43,406 |
| | <u>581,184</u> | <u>742,957</u> | <u>721,635</u> |
| Equity | | | |
| Equity attributable to equity holders of the Company | 266,682 | 203,936 | 191,497 |
| Non-controlling interests | 227,925 | 212,120 | 208,106 |
| Total equity | <u>494,607</u> | <u>416,056</u> | <u>399,603</u> |
| | <u>1,925,872</u> | <u>2,075,070</u> | <u>2,052,933</u> |

E. Vessely
Chief Financial Officer

M. Salkind
Joint General Manager

M. Fridman
Chairman of the Board of
Directors

ELCO LIMITED

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | Nine months ended | | Three months ended | | Year ended |
|---|--------------------|--------------------|--------------------|------------------|--------------------|
| | September 30 | | September 30 | | December 31 |
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| Revenues, net | 1,637,423 | 1,470,606 | 578,187 | 507,112 | 1,971,655 |
| Adjustment of the fair value and the results of the disposal of income-generating assets, net | 476 | (2,681) | 8 | (868) | (2,125) |
| Group's share of the profits of companies accounted for at equity, net | 21,875 | 14,050 | 8,509 | 3,232 | 19,559 |
| Other income | 89,302 | 1,468 | 9,819 | 579 | 2,691 |
| Total | 1,749,076 | 1,483,443 | 596,523 | 510,055 | 1,991,780 |
| Cost of producing revenues | (1,390,698) | (1,244,582) | (491,574) | (429,898) | (1,671,345) |
| Selling and marketing expenses | (137,459) | (131,973) | (48,632) | (43,809) | (175,414) |
| Administrative and general expenses | (52,066) | (46,036) | (16,658) | (15,286) | (67,157) |
| Other expenses | (74) | (2,710) | - | (1,737) | (4,499) |
| Financing income | 8,398 | 8,554 | 3,940 | 1,060 | 11,768 |
| Financing expenses | (34,366) | (35,400) | (8,235) | (6,651) | (45,981) |
| Total | (1,606,265) | (1,452,147) | (561,159) | (496,321) | (1,952,628) |
| Income before taxes on income | 142,811 | 31,296 | 35,364 | 13,734 | 39,152 |
| Taxes on income | (24,931) | (13,788) | (10,908) | (3,982) | (10,764) |
| Income from continuing operations | 117,880 | 17,508 | 24,456 | 9,752 | 28,388 |
| Income (loss) from discontinued operations | (3,217) | 10,265 | (3,051) | 112 | 346 |
| Net income | 114,663 | 27,773 | 21,405 | 9,864 | 28,734 |
| Attributable to: | | | | | |
| Equity holders in the Company | 86,446 | 12,675 | 10,509 | 4,725 | 10,758 |
| Non-controlling interest | 28,217 | 15,098 | 10,896 | 5,139 | 17,976 |
| | 114,663 | 27,773 | 21,405 | 9,864 | 28,734 |
| Earnings (loss) per share - attributable to the Equity holders of the Company: | | | | | |
| Basic - Earnings (loss) | | | | | |
| From continuing operations | 3.19 | 0.09 | 0.44 | 0.16 | 0.38 |
| From discontinued operations | (0.06) | 0.37 | (0.06) | 0.01 | 0.01 |
| | 3.13 | 0.46 | 0.38 | 0.17 | 0.39 |
| Fully diluted - Earnings (loss) | | | | | |
| From continuing operations | 3.18 | 0.08 | 0.43 | 0.16 | 0.38 |
| From discontinued operations | (0.06) | 0.37 | (0.06) | 0.01 | 0.01 |
| | 3.12 | 0.45 | 0.37 | 0.17 | 0.39 |

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

ELCO LIMITED**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | Nine months ended | | Three months ended | | Year ended |
|--|--------------------------|-----------------|---------------------------|---------------|--------------------|
| | September 30 | | September 30 | | December 31 |
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| Net income | <u>114,663</u> | <u>27,773</u> | <u>21,405</u> | <u>9,864</u> | <u>28,734</u> |
| Other comprehensive income (loss) (after tax effects): | | | | | |
| Amounts that will never be reclassified to profit or loss: | | | | | |
| Loss on financial assets measured at fair value through other comprehensive income | - | (565) | - | - | (565) |
| Loss from the re-measurement of defined benefit plans | (4) | - | - | - | (918) |
| | <u>(4)</u> | <u>(565)</u> | <u>-</u> | <u>-</u> | <u>(1,483)</u> |
| Amounts that will be classified or reclassified to the profit or loss, when specific conditions are met: | | | | | |
| Adjustments deriving from the translation of the financial statements of foreign operations | (17,439) | (26,171) | (10,714) | 4,287 | (37,667) |
| Loss on hedging transactions | (515) | (2,153) | (912) | (257) | (3,386) |
| | <u>(17,954)</u> | <u>(28,324)</u> | <u>(11,626)</u> | <u>4,030</u> | <u>(41,053)</u> |
| Total other comprehensive loss | <u>(17,958)</u> | <u>(28,889)</u> | <u>(11,626)</u> | <u>4,030</u> | <u>(42,536)</u> |
| Total comprehensive income (loss) | <u>96,705</u> | <u>(1,116)</u> | <u>9,779</u> | <u>13,894</u> | <u>(13,802)</u> |
| Comprehensive income (loss) attributable to: | | | | | |
| Equity holders in the company | 74,403 | (2,034) | 3,443 | 9,083 | (11,231) |
| Non-controlling interests | 22,302 | 918 | 6,336 | 4,811 | (2,571) |
| | <u>96,705</u> | <u>(1,116)</u> | <u>9,779</u> | <u>13,894</u> | <u>(13,802)</u> |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | Attributable to equity holders in the company | | | | | | | | | | | | Non-controlling interests | Total equity |
|---|---|---------------|-----------------|-------------------|--|--|---|--|---|--|---------------------|----------------|---------------------------|----------------|
| | Share capital | Share premium | Treasury shares | Retained earnings | Capital reserve on transactions with controlling interests | Capital reserve on financial assets at fair value through other comprehensive income | Capital reserve on hedging transactions | Capital reserve on the re-measurement of defined benefit plans | Adjustments deriving from the translation of financial Statements | Capital reserve on share-based payment | Revaluation reserve | Total | | |
| | Unaudited | | | | | | | | | | | | | |
| Balance as of January 1, 2016 (audited) | 30,334 | 14,680 | (49,125) | 310,443 | 128 | (48,879) | 3,073 | (862) | (84,925) | 7,599 | 9,031 | 191,497 | 208,106 | 399,603 |
| Net income | - | - | - | 86,446 | - | - | - | - | - | - | - | 86,446 | 28,217 | 114,663 |
| Other comprehensive income (loss): | | | | | | | | | | | | | | |
| Adjustments deriving from the translation of financial statements | - | - | - | - | - | - | - | - | (11,767) | - | - | (11,767) | (5,672) | (17,439) |
| Loss on the re-measurement of defined benefit plans | - | - | - | - | - | - | - | (2) | - | - | - | (2) | (2) | (4) |
| Loss on hedging transactions | - | - | - | - | - | - | (274) | - | - | - | - | (274) | (241) | (515) |
| Total other comprehensive income (loss) | - | - | - | - | - | - | (274) | (2) | (11,767) | - | - | (12,043) | (5,915) | (17,958) |
| Total comprehensive income (loss) | - | - | - | 86,446 | - | - | (274) | (2) | (11,767) | - | - | 74,403 | 22,302 | 96,705 |
| Cost of share-based payment | - | - | - | - | - | - | - | - | - | 367 | - | 367 | 1,765 | 2,132 |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (13,010) | (13,010) |
| Purchase of non-controlling interests | - | - | - | 415 | - | - | - | - | - | - | - | 415 | (3,584) | (3,169) |
| Issuance of shares to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 12,346 | 12,346 |
| As of September 30, 2016 | 30,334 | 14,680 | (49,125) | 397,304 | 128 | (48,879) | 2,799 | (864) | (96,692) | 7,966 | 9,031 | 266,682 | 227,925 | 494,607 |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | Attributable to equity holders of the company | | | | | | | | | | | | Non-controlling interests | Total equity |
|--|---|---------------|-----------------|-------------------|--|--|---|--|---|--|---------------------|----------------|---------------------------|----------------|
| | Share capital | Share premium | Treasury shares | Retained earnings | Capital reserve on transactions with controlling interests | Capital reserve on financial assets at fair value through other comprehensive income | Capital reserve on hedging transactions | Capital reserve on the re-measurement of defined benefit plans | Adjustments deriving from the translation of financial Statements | Capital reserve on share-based payment | Revaluation reserve | Total | | |
| | Unaudited | | | | | | | | | | | | | |
| Balance as of January 1, 2015 (audited) | 30,334 | 14,680 | (49,125) | 304,980 | 128 | (48,549) | 5,057 | (320) | (65,912) | 6,852 | 9,031 | 207,156 | 219,311 | 426,467 |
| Changes following the initial implementation of IFRS 15 | - | - | - | 985 | - | - | - | - | - | - | - | 985 | 804 | 1,789 |
| Balance as of January 1, 2015 following the initial implementation of IFRS 15 | 30,334 | 14,680 | (49,125) | 305,965 | 128 | (48,549) | 5,057 | (320) | (65,912) | 6,852 | 9,031 | 208,141 | 220,115 | 428,256 |
| Net profit | - | - | - | 12,675 | - | - | - | - | - | - | - | 12,675 | 15,098 | 27,773 |
| Other comprehensive income (loss): | | | | | | | | | | | | | | |
| Adjustments deriving from the translation of financial statements | - | - | - | - | - | - | - | - | (13,092) | - | - | (13,092) | (13,079) | (26,171) |
| Financial assets measured at fair value through other comprehensive income | - | - | - | - | - | (330) | - | - | - | - | - | (330) | (235) | (565) |
| Loss on hedging transactions | - | - | - | - | - | - | (1,287) | - | - | - | - | (1,287) | (866) | (2,153) |
| Total other comprehensive loss | - | - | - | - | - | (330) | (1,287) | - | (13,092) | - | - | (14,709) | (14,180) | (28,889) |
| Total comprehensive income (loss) | - | - | - | 12,675 | - | (330) | (1,287) | - | (13,092) | - | - | (2,034) | 918 | (1,116) |
| Cost of share-based payment | - | - | - | - | - | - | - | - | - | 560 | - | 560 | 1,560 | 2,120 |
| Dividend to shareholders in the company | - | - | - | (2,661) | - | - | - | - | - | - | - | (2,661) | - | (2,661) |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (10,767) | (10,767) |
| Purchase of treasury shares in subsidiary companies | - | - | - | (72) | - | - | - | - | - | - | - | (72) | (63) | (135) |
| Issuance of shares to non-controlling interests | - | - | - | 2 | - | - | - | - | - | - | - | 2 | 2 | 4 |
| Initially consolidated company | - | - | - | - | - | - | - | - | - | - | - | - | 355 | 355 |
| As of September 30, 2015 | 30,334 | 14,680 | (49,125) | 315,909 | 128 | (48,879) | 3,770 | (320) | (79,004) | 7,412 | 9,031 | 203,936 | 212,120 | 416,056 |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | Attributable to equity holders in the company | | | | | | | | | | | Non-controlling interests | Total equity | |
|---|---|---------------|-----------------|-------------------|--|--|---|--|---|--|---------------------|---------------------------|----------------|----------------|
| | Share capital | Share premium | Treasury shares | Retained earnings | Capital reserve on transactions with controlling interests | Capital reserve on financial assets at fair value through other comprehensive income | Capital reserve on hedging transactions | Capital reserve on the re-measurement of defined benefit plans | Adjustments deriving from the translation of financial Statements | Capital reserve on share-based payment | Revaluation reserve | | | Total |
| | Unaudited | | | | | | | | | | | | | |
| Balance as of July 1, 2016 | 30,334 | 14,680 | (49,125) | 386,913 | 128 | (48,879) | 3,284 | (864) | (90,111) | 7,842 | 9,031 | 263,233 | 213,790 | 477,023 |
| Net income | - | - | - | 10,509 | - | - | - | - | - | - | - | 10,509 | 10,896 | 21,405 |
| Other comprehensive income (loss): | | | | | | | | | | | | | | |
| Adjustments deriving from the translation of financial statements | - | - | - | - | - | - | - | - | (6,581) | - | - | (6,581) | (4,133) | (10,714) |
| Loss on hedging transactions | - | - | - | - | - | - | (485) | - | - | - | - | (485) | (427) | (912) |
| Total other comprehensive income (loss) | - | - | - | - | - | - | (485) | - | (6,581) | - | - | (7,066) | (4,560) | (11,626) |
| Total comprehensive income (loss) | - | - | - | 10,509 | - | - | (485) | - | (6,581) | - | - | 3,443 | 6,336 | 9,779 |
| Cost of share-based payment | - | - | - | - | - | - | - | - | - | 124 | - | 124 | 759 | 883 |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (3,075) | (3,075) |
| Purchase of non-controlling interests | - | - | - | (118) | - | - | - | - | - | - | - | (118) | (989) | (1,107) |
| Issuance of shares to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 11,104 | 11,104 |
| As of September 30, 2016 | 30,334 | 14,680 | (49,125) | 397,304 | 128 | (48,879) | 2,799 | (864) | (96,692) | 7,966 | 9,031 | 266,682 | 227,925 | 494,607 |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

Attributable to equity holders in the company

| | Share capital | Share premium | Treasury Shares | Retained earnings | Capital reserve on transactions with controlling interests | Capital reserve on financial assets at fair value through other comprehensive income | Capital reserve on hedging transactions | Capital reserve on the re-measurement of defined benefit plans | Adjustments deriving from the translation of financial Statements | Capital reserve on share-based payment | Revaluation reserve | Total | Non-controlling interests | Total equity |
|---|---------------|---------------|-----------------|-------------------|--|--|---|--|---|--|---------------------|----------------|---------------------------|----------------|
| | | | | | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited | Unaudited |
| Balance as of July 1, 2015 | 30,334 | 14,680 | (49,125) | 311,183 | 128 | (48,879) | 3,961 | (320) | (83,553) | 7,225 | 9,031 | 194,665 | 209,146 | 403,811 |
| Net income | - | - | - | 4,725 | - | - | - | - | - | - | - | 4,725 | 5,139 | 9,864 |
| Other comprehensive income (loss): | | | | | | | | | | | | | | |
| Adjustments deriving from the translation of financial statements | - | - | - | - | - | - | - | - | 4,549 | - | - | 4,549 | (262) | 4,287 |
| Loss on hedging transactions | - | - | - | - | - | - | (191) | - | - | - | - | (191) | (66) | (257) |
| Total other comprehensive loss | - | - | - | - | - | - | (191) | - | 4,549 | - | - | 4,358 | (328) | 4,030 |
| Total comprehensive income (loss) | - | - | - | 4,725 | - | - | (191) | - | 4,549 | - | - | 9,083 | 4,811 | 13,894 |
| Cost of share-based payment | - | - | - | - | - | - | - | - | - | 187 | - | 187 | 664 | 851 |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (2,502) | (2,502) |
| Issuance of shares to non-controlling interests | - | - | - | 1 | - | - | - | - | - | - | - | 1 | 1 | 2 |
| As of September 30, 2015 | 30,334 | 14,680 | (49,125) | 315,909 | 128 | (48,879) | 3,770 | (320) | (79,004) | 7,412 | 9,031 | 203,936 | 212,120 | 416,056 |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | Attributable to equity holders of the company | | | | | | | | | | | | | |
|--|---|---------------|-----------------|-------------------|--|--|---|--|---|--|---------------------|-----------------|---------------------------|-----------------|
| | Share capital | Share premium | Treasury shares | Retained earnings | Capital reserve on transactions with controlling interests | Capital reserve on financial assets at fair value through other comprehensive income | Capital reserve on hedging transactions | Capital reserve on the re-measurement of defined benefit plans | Adjustments deriving from the translation of financial Statements | Capital reserve on share-based payment | Revaluation reserve | Total | Non-controlling interests | Total equity |
| Balance as of January 1, 2015 | 30,334 | 14,680 | (49,125) | 304,980 | 128 | (48,549) | 5,057 | (320) | (65,912) | 6,852 | 9,031 | 207,156 | 219,311 | 426,467 |
| Changes following the initial implementation of IFRS 15 | - | - | - | 985 | - | - | - | - | - | - | - | 985 | 804 | 1,789 |
| Balance as of January 1, 2015 following the initial implementation of IFRS 15 | 30,334 | 14,680 | (49,125) | 305,965 | 128 | (48,549) | 5,057 | (320) | (65,912) | 6,852 | 9,031 | 208,141 | 220,115 | 428,256 |
| Net profit | - | - | - | 10,758 | - | - | - | - | - | - | - | 10,758 | 17,976 | 28,734 |
| Other comprehensive income (loss): | | | | | | | | | | | | | | |
| Adjustments deriving from the translation of financial statements | - | - | - | - | - | - | - | - | (19,133) | - | - | (19,133) | (18,534) | (37,667) |
| Loss on the re-measurement of defined benefit plans | - | - | - | - | - | - | - | (542) | - | - | - | (542) | (376) | (918) |
| Financial assets measured at fair value through other comprehensive income | - | - | - | - | - | (330) | - | - | - | - | - | (330) | (235) | (565) |
| Loss on hedging transactions | - | - | - | - | - | - | (1,984) | - | - | - | - | (1,984) | (1,402) | (3,386) |
| Total other comprehensive loss | - | - | - | - | - | (330) | (1,984) | (542) | (19,133) | - | - | (21,989) | (20,547) | (42,536) |
| Total comprehensive income (loss) | - | - | - | 10,758 | - | (330) | (1,984) | (542) | (19,133) | - | - | (11,231) | (2,571) | (13,802) |
| Cost of share-based payment | - | - | - | - | - | - | - | - | - | 747 | - | 747 | 2,252 | 2,999 |
| Dividend to shareholders in the company | - | - | - | (5,378) | - | - | - | - | - | - | - | (5,378) | - | (5,378) |
| Dividend to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | (12,618) | (12,618) |
| Purchase of treasury shares in subsidiary companies | - | - | - | (902) | - | - | - | - | 120 | - | - | (782) | (34) | (816) |
| Initially consolidated company | - | - | - | - | - | - | - | - | - | - | - | - | 355 | 355 |
| Issuance of shares to non-controlling interests | - | - | - | - | - | - | - | - | - | - | - | - | 607 | 607 |
| As of December 31, 2015 | 30,334 | 14,680 | (49,125) | 310,443 | 128 | (48,879) | 3,073 | (862) | (84,925) | 7,599 | 9,031 | 191,497 | 208,106 | 399,603 |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

| | Nine months ended | | Three months ended | | Year ended |
|---|-------------------|------------------|--------------------|-----------------|------------------|
| | September 30 | | September 30 | | December 31 |
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| Cash flows from operating activities: | | | | | |
| Net income | 114,663 | 27,773 | 21,405 | 9,864 | 28,734 |
| Adjustments required in order to present the cash flows from operating activities (Appendix A') | (144,863) | (51,495) | (9,056) | (5,536) | 32,647 |
| Net cash generated (absorbed) by operating activities | <u>(30,200)</u> | <u>(23,722)</u> | <u>12,349</u> | <u>4,328</u> | <u>61,381</u> |
| Cash flows from investment activities: | | | | | |
| Acquisition of fixed assets and intangible assets | (24,788) | (19,896) | (4,934) | (5,760) | (25,156) |
| Acquisition and construction of income generating assets | (3,830) | (6,953) | (1,020) | (2,185) | (10,988) |
| Initially consolidated companies and activities (Appendix B) | (5,071) | (5,302) | (4,524) | (5,126) | (6,340) |
| Investment in shares of affiliated and other companies | (47,326) | (13,692) | (16,228) | (4,794) | (21,900) |
| Purchase of short-term investments, net | (25,081) | (12,257) | (15,061) | 2,224 | (5,809) |
| Consideration from the disposal of fixed and income-generating assets and investments | 385,777 | 91,879 | 30,768 | 17,769 | 106,654 |
| Collection (extension) of long-term loans and deposits | 138 | 1,899 | 5 | 7,177 | 1,373 |
| Net cash generated (absorbed) by investment activities | <u>279,819</u> | <u>35,678</u> | <u>(10,994)</u> | <u>9,305</u> | <u>37,834</u> |
| Cash flows from financing activities: | | | | | |
| Dividend paid to shareholders in the company | - | (2,661) | - | - | (5,378) |
| Dividend to non-controlling interests | (10,303) | (10,767) | (368) | (2,502) | (12,618) |
| Issuance of bonds | 97,324 | 89,197 | 56,164 | - | 89,197 |
| Repayment of long-term liabilities | (319,228) | (188,611) | (19,211) | (33,769) | (228,873) |
| Receipt of long-term liabilities | 14,975 | 44,997 | 2,868 | 1,851 | 76,769 |
| Short-term bank credit, net | (15,044) | (34,794) | 2,713 | (14,956) | (26,645) |
| Purchase of non-controlling interests | (3,169) | - | (1,107) | - | - |
| Issuance of shares to non-controlling interests in consolidated companies | 12,346 | 4 | 11,104 | 2 | 607 |
| Purchase of treasury shares in the company and in consolidated companies | - | (135) | - | - | (816) |
| Net cash absorbed by financing activities | <u>(223,099)</u> | <u>(102,770)</u> | <u>52,163</u> | <u>(49,374)</u> | <u>(107,757)</u> |
| Translation differences in respect of cash and cash equivalents balances | <u>(8,906)</u> | <u>(254)</u> | <u>(1,977)</u> | <u>907</u> | <u>(979)</u> |
| Increase (decrease) in cash and cash equivalents | 17,614 | (91,068) | 51,541 | (34,834) | (9,521) |
| Balance of cash and cash equivalents at the beginning of the period | <u>204,742</u> | <u>214,263</u> | <u>170,815</u> | <u>158,029</u> | <u>214,263</u> |
| Balance of cash and cash equivalents at the end of the period | <u>222,356</u> | <u>123,195</u> | <u>222,356</u> | <u>123,195</u> | <u>204,742</u> |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

Appendix A' - Adjustments required in order to present the cash flows from operating activities:

| | Nine months ended | | Three months ended | | Year ended |
|---|-------------------|-----------------|--------------------|----------------|---------------|
| | September 30 | | September 30 | | December 31 |
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| Income and expenses not involving cash flows: | | | | | |
| The Group's share of the profits of companies accounted for at equity, net | (21,875) | (29,670) | (8,509) | (3,232) | (4,859) |
| Dividends and interest received from companies accounted for at equity | 15,167 | 13,859 | 2,487 | 7,373 | 23,249 |
| Adjustment of fair value and the results of the disposal of income-generating assets, net | (476) | 2,681 | (8) | 868 | 2,125 |
| Depreciation and amortization | 18,560 | 17,247 | 6,858 | 6,481 | 23,623 |
| Deferred taxes, net | (4,772) | 13,520 | (114) | 2,568 | (12,997) |
| Change in employee benefit liabilities, net | (17) | 231 | (162) | 204 | 631 |
| Capital gain on the sale of fixed assets and other investments | (84,174) | (1,543) | (6,773) | (654) | (1,986) |
| Gain on the re-measurement of an investment in an initially consolidated investee company | (1,821) | - | - | - | (827) |
| Revaluation of long-term receivable and liabilities, net | 429 | 3,171 | 2,232 | 3,531 | (1,788) |
| Increase in the value of short-term investments | (544) | (531) | (39) | (462) | (504) |
| Cost of share-based payment | 2,132 | 2,120 | 883 | 851 | 2,999 |
| Changes in asset and liability items: | | | | | |
| Decrease in inventory and inventory of real estate | 22,283 | 24,811 | 30,319 | 42,220 | 11,396 |
| Increase in trade receivables | (71,781) | (22,204) | (25,273) | (11,209) | (11,636) |
| (Increase) decrease in other accounts receivable | (12,196) | (58,879) | 671 | (25,728) | (31,589) |
| Increase (decrease) in suppliers and providers of services | 14,784 | (25,916) | (12,018) | (24,637) | 6,543 |
| Increase (decrease) in other accounts payable | (20,562) | 9,608 | 390 | (3,710) | 28,267 |
| | <u>(144,863)</u> | <u>(51,495)</u> | <u>(9,056)</u> | <u>(5,536)</u> | <u>32,647</u> |

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

Appendix B' - Investment in initially consolidated companies and activities

| | Nine months ended | | Three months ended | | Year ended |
|---|-------------------|----------------|--------------------|----------------|----------------|
| | September 30 | | September 30 | | December 31 |
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| Working capital, net (except cash and cash equivalents) | 2,428 | (3,373) | - | (3,210) | (3,636) |
| Investment in marketable securities | - | (596) | - | (27) | (596) |
| Fixed assets | (278) | (1,140) | (80) | (603) | (1,164) |
| Investment in entities accounted for at equity | 1,985 | - | - | - | 355 |
| Intangible assets | (11,458) | (5,561) | (2,967) | (4,727) | (6,890) |
| Goodwill | (5,731) | (4,808) | (1,477) | (3,149) | (5,764) |
| Deferred taxes | 2,044 | 2,522 | - | 2,423 | 2,874 |
| Non-current liabilities | 283 | 1,944 | - | 4,167 | 1,944 |
| Payables for conditional consideration | - | 2,299 | - | - | 2,299 |
| Liability for put option | 3,630 | 3,056 | - | - | 3,056 |
| Non-controlling interests | - | 355 | - | - | 355 |
| Gain on entry to consolidation | 205 | - | - | - | - |
| Gain as a result of an increase to control | 1,821 | - | - | - | 827 |
| | <u>(5,071)</u> | <u>(5,302)</u> | <u>(4,524)</u> | <u>(5,126)</u> | <u>(6,340)</u> |

Appendix C' - Further information on cash flows

| | Nine months ended | | Three months ended | | Year ended |
|------------------------------|-------------------|---------------|--------------------|--------------|---------------|
| | September 30 | | September 30 | | December 31 |
| | 2016 | 2015 | 2016 | 2015 | 2015 |
| | Unaudited | | Unaudited | | Audited |
| Cash paid in the period for: | | | | | |
| Interest | <u>28,187</u> | <u>26,317</u> | <u>2,140</u> | <u>5,996</u> | <u>40,752</u> |
| Taxes on income | <u>32,565</u> | <u>7,774</u> | <u>9,203</u> | <u>859</u> | <u>9,674</u> |
| Cash received for: | | | | | |
| Interest | <u>2,315</u> | <u>1,711</u> | <u>1,275</u> | <u>692</u> | <u>2,884</u> |
| Taxes on income | <u>2,035</u> | <u>2,542</u> | <u>318</u> | <u>2,148</u> | <u>4,037</u> |

Appendix D' - Significant activities not involving cash flows

| | | | | | |
|---------------------------------------|--------------|----------|--------------|----------|----------|
| Dividend to non-controlling interests | <u>2,707</u> | <u>-</u> | <u>2,707</u> | <u>-</u> | <u>-</u> |
|---------------------------------------|--------------|----------|--------------|----------|----------|

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

These financial statements have been prepared in a condensed format as at September 30, 2016 and for the periods of nine 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 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.

B. 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.

C. Convenience translation

The attached 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 to the US Dollar prevailing on September 30, 2016 (NIS 3.758 = 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.
