

ELCO LIMITED

Interim Consolidated Financial Statements

As of March 31, 2017

Convenience Translation into U.S. Dollars

(Unaudited)

ELCO LIMITED

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Auditors' review report to the shareholders of Elco Holdings Ltd.

Introduction

We have reviewed the accompanying financial information of Elco Holdings Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated balance sheet as of March 31, 2017, the condensed consolidated statements of profit or loss, of comprehensive income, of changes in equity and 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.

We did not review the condensed financial information for the interim period of certain consolidated companies, whose assets constitute approximately 15% of the total consolidated assets as of March 31, 2017, and whose revenues constitute approximately 7% of the total consolidated revenues for the period of three months ended on that date. Furthermore, we did not review the condensed financial information for the interim period of companies that are accounted for at equity, the investment in which amounted to approximately US\$ 90,818 thousand as of March 31, 2017 and the Group's share of their profits amounted to approximately US\$ 2,718 thousand in the period of three months ended on that date. The condensed financial information of those companies for the interim period 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, 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 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

Tel-Aviv, May 25, 2017

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

	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Current assets			
Cash and cash equivalents	143,542	329,204	274,083
Short-term investments	190,438	33,981	53,257
Trade receivables	324,374	316,257	328,165
Other accounts receivables	323,855	267,081	271,101
Inventory, inventory of real estate and residential apartments	277,148	271,184	241,221
Assets held for sale	66,473	2,930	54,663
	<u>1,325,830</u>	<u>1,220,637</u>	<u>1,222,490</u>
Non-current assets			
Long-term receivables	31,178	19,087	24,452
Receivables for concession arrangement for the provision of services	26,774	28,916	27,406
Investment in entities accounted for at equity	331,239	307,257	335,127
Long-term inventory of real estate	17,945	17,349	16,116
Income generating assets	98,454	135,733	98,467
Fixed assets	85,921	88,322	91,818
Goodwill and other intangible assets	281,851	213,306	213,503
Deferred tax assets	1,428	4,539	1,036
	<u>874,790</u>	<u>814,509</u>	<u>807,925</u>
	<u>2,200,620</u>	<u>2,035,146</u>	<u>2,030,415</u>

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

May 25, 2017
Date of approval of financial statements

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

	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Current Liabilities			
Credit from banking institutions and others	163,159	71,123	71,753
Bonds - current maturities	64,879	67,551	64,912
Suppliers and providers of services	394,281	411,151	420,051
Other payables	396,899	304,644	372,621
Liabilities in respect of assets held for sale	32,728	21,701	23,236
	<u>1,051,946</u>	<u>876,170</u>	<u>952,573</u>
Long-Term Liabilities			
Liabilities to banks and financial institutions	62,201	110,474	63,212
Bonds	353,134	437,685	353,330
Other liabilities	114,579	67,851	77,992
Employee benefit liabilities	14,978	15,001	15,210
Deferred taxes	46,660	45,184	39,896
	<u>591,552</u>	<u>676,195</u>	<u>549,640</u>
Equity			
Equity attributable to equity holders of the Company	310,953	270,244	291,572
Non-controlling interests	246,169	212,537	236,630
Total equity	<u>557,122</u>	<u>482,781</u>	<u>528,202</u>
	<u>2,200,620</u>	<u>2,035,146</u>	<u>2,030,415</u>

E. Vessely
Chief Financial Officer

D. 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)

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Revenues, net	545,323	483,683	2,082,114
Adjustment of the fair value and the results of the disposal of income-generating assets, net	(1,127)	-	7,205
Group's share of the profits of companies accounted for at equity, net	1,588	8,349	20,275
Other income	2,825	81,609	106,323
Total	548,609	573,641	2,215,917
Cost of producing revenues	(478,558)	(426,471)	(1,810,858)
Selling and marketing expenses	(30,587)	(28,487)	(126,692)
Administrative and general expenses	(17,955)	(19,566)	(73,902)
Other expenses	(821)	(12)	(4,473)
Financing income	5,628	1,808	13,417
Financing expenses	(11,187)	(8,978)	(44,517)
Total	(533,480)	(481,706)	(2,047,025)
Income before taxes on income	15,129	91,935	168,892
Taxes on income	(5,563)	(5,816)	(27,388)
Income from continuing operations	9,566	86,119	141,504
Operating income from discontinued operations	19,618	349	819
Net income	29,184	86,468	142,323
Attributable to:			
Equity holders in the Company	13,836	77,603	107,556
Non-controlling interest	15,348	8,865	34,767
	29,184	86,468	142,323
Earnings per share - attributable to the Equity holders of the Company:			
Basic - Earnings			
From continuing operations	0.11	2.80	3.87
From discontinued operations	0.39	0.01	0.03
	0.50	2.81	3.90
Fully diluted - Earnings			
From continuing operations	0.08	2.80	3.84
From discontinued operations	0.39	0.01	0.03
	0.47	2.81	3.87

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)

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Net income	<u>29,184</u>	<u>86,468</u>	<u>142,323</u>
Other comprehensive income (loss) (after tax effects):			
Amounts that will never be reclassified to profit or loss:			
Loss from the re-measurement of defined benefit plans	<u>-</u>	<u>(4)</u>	<u>(49)</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	<u>(8,778)</u>	<u>(6,703)</u>	<u>(13,656)</u>
Gain (loss) on hedging transactions	<u>(1,132)</u>	<u>314</u>	<u>(1,149)</u>
	<u>(9,910)</u>	<u>(6,389)</u>	<u>(14,805)</u>
Total other comprehensive loss	<u>(9,910)</u>	<u>(6,393)</u>	<u>(14,854)</u>
Total comprehensive income (loss)	<u>19,274</u>	<u>80,075</u>	<u>127,469</u>
Comprehensive income (loss) attributable to:			
Equity holders in the company	<u>7,583</u>	<u>71,427</u>	<u>98,112</u>
Non-controlling interests	<u>11,691</u>	<u>8,648</u>	<u>29,357</u>
	<u>19,274</u>	<u>80,075</u>	<u>127,469</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
Balance as of January 1, 2017	31,387	15,189	(50,829)	423,579	132	(50,574)	2,569	(924)	(96,672)	8,371	9,344	291,572	236,630	528,202
Net income	-	-	-	13,836	-	-	-	-	-	-	-	13,836	15,348	29,184
Other comprehensive loss:														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(5,651)	-	-	(5,651)	(3,127)	(8,778)
Loss on hedging transactions	-	-	-	-	-	(602)	-	-	-	-	-	(602)	(530)	(1,132)
Total other comprehensive loss	-	-	-	-	-	(602)	-	-	(5,651)	-	-	(6,253)	(3,657)	(9,910)
Total comprehensive income (loss)	-	-	-	13,836	-	-	(602)	-	(5,651)	-	-	7,583	11,691	19,274
Cost of share-based payment	-	-	-	-	-	-	-	-	-	88	-	88	957	1,045
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(12,719)	(12,719)
Sale of shares in a consolidated company to non-controlling interests	-	-	-	11,468	-	-	-	94	131	-	-	11,693	8,436	20,129
Acquisition of non-controlling interests	-	-	-	17	-	-	-	-	-	-	-	17	273	290
Initial consolidation of a company	-	-	-	-	-	-	-	-	-	-	-	-	(224)	(224)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,125	1,125
As of March 31, 2017	31,387	15,189	(50,829)	448,900	132	(50,574)	1,967	(830)	(102,192)	8,459	9,344	310,953	246,169	557,122

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		
Balance as of January 1, 2016	31,387	15,189	(50,829)	321,212	132	(50,574)	3,180	(892)	(87,871)	7,862	9,344	198,140	215,326	413,466
Net income	-	-	-	77,603	-	-	-	-	-	-	-	77,603	8,865	86,468
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(6,341)	-	-	(6,341)	(362)	(6,703)
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(2)	-	-	-	(2)	(2)	(4)
Gain on hedging transactions	-	-	-	-	-	-	167	-	-	-	-	167	147	314
Total other comprehensive income (loss)	-	-	-	-	-	-	167	(2)	(6,341)	-	-	(6,176)	(217)	(6,393)
Total comprehensive income (loss)	-	-	-	77,603	-	-	167	(2)	(6,341)	-	-	71,427	8,648	80,075
Cost of share-based payment	-	-	-	-	-	-	-	-	-	126	-	126	502	628
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(10,170)	(10,170)
Acquisition of non-controlling interests	-	-	-	551	-	-	-	-	-	-	-	551	(2,684)	(2,133)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	915	915
As of March 31, 2016	31,387	15,189	(50,829)	399,366	132	(50,574)	3,347	(894)	(94,212)	7,988	9,344	270,244	212,537	482,781

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, 2016	31,387	15,189	(50,829)	321,212	132	(50,574)	3,180	(892)	(87,871)	7,862	9,344	198,140	215,326	413,466
Net profit	-	-	-	107,556	-	-	-	-	-	-	-	107,556	34,767	142,323
Other comprehensive loss:														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(8,801)	-	-	(8,801)	(4,855)	(13,656)
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(32)	-	-	-	(32)	(17)	(49)
Loss on hedging transactions	-	-	-	-	-	-	(611)	-	-	-	-	(611)	(538)	(1,149)
Total other comprehensive loss	-	-	-	-	-	-	(611)	(32)	(8,801)	-	-	(9,444)	(5,410)	(14,854)
Total comprehensive income (loss)	-	-	-	107,556	-	-	(611)	(32)	(8,801)	-	-	98,112	29,357	127,469
Cost of share-based payment	-	-	-	-	-	-	-	-	-	509	-	509	2,890	3,399
Dividend to shareholders in the company	-	-	-	(5,618)	-	-	-	-	-	-	-	(5,618)	-	(5,618)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(21,444)	(21,444)
Acquisition of non-controlling interests	-	-	-	429	-	-	-	-	-	-	-	429	(3,709)	(3,280)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	14,210	14,210
As of December 31, 2016	31,387	15,189	(50,829)	423,579	132	(50,574)	2,569	(924)	(96,672)	8,371	9,344	291,572	236,630	528,202

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)

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Cash flows from operating activities:			
Net income	29,184	86,468	142,323
Adjustments required in order to present the cash flows from operating activities (Appendix A')	(69,464)	(124,880)	(83,500)
Net cash generated (absorbed) by operating activities	(40,280)	(38,412)	58,823
Cash flows from investment activities:			
Acquisition of fixed assets and intangible assets	(12,703)	(11,131)	(31,375)
Acquisition and construction of income generating assets	(2,077)	(929)	(7,310)
Initially consolidated companies and activities (Appendix B)	(23,906)	(2,615)	(11,265)
Investment in shares of affiliated and other companies	(37,562)	(19,199)	(60,889)
Sale of short-term investments, net	(137,329)	(700)	(25,953)
Consideration from the disposal of fixed and income-generating assets and investments	18,792	366,299	431,678
Net consideration from the sole of operation	27,009	-	-
Collection of long-term loans and deposits	4	136	142
Net cash generated (absorbed) by investment activities	(167,772)	331,861	295,028
Cash flows from financing activities:			
Dividend paid to shareholders in the company	-	-	(5,618)
Dividend to non-controlling interests	(10,494)	(1,786)	(10,642)
Issuance of bonds	-	19,626	100,337
Sale of shares in a consolidated company to non-controlling interests	20,129	-	-
Repayment of long-term liabilities	(8,653)	(169,648)	(367,875)
Receipt of long-term liabilities	12,320	680	20,733
Short-term bank credit, net	64,140	(21,285)	(30,128)
Acquisition of non-controlling interests	-	(2,133)	-
Issuance of shares to non-controlling interests in consolidated companies	1,125	135	14,210
Acquisition of treasury shares in the company and in consolidated companies	-	-	(3,279)
Net cash generated (absorbed) by financing activities	78,567	(174,411)	(282,262)
Translation differences in respect of cash and cash equivalents balances	(1,056)	(1,679)	(9,351)
Increase (decrease) in cash and cash equivalents	(130,541)	117,359	62,238
Balance of cash and cash equivalents at the beginning of the period	274,083	211,845	211,845
Balance of cash and cash equivalents at the end of the period	143,542	329,204	274,083

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:**

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	<u>Unaudited</u>		<u>Audited</u>
Income and expenses not involving cash flows:			
The Group's share of the profits of companies accounted for at equity, net	(1,588)	(8,349)	(20,275)
Dividends and interest received from companies accounted for at equity	731	12,066	10,318
Adjustment of fair value and the results of the disposal of income-generating assets, net	1,127	37	(7,205)
Depreciation and amortization	7,589	5,765	28,133
Deferred taxes, net	1,885	2,328	(23,519)
Increase (decrease) in employee benefit liabilities	(491)	88	407
Capital gain on the sale of fixed assets and other investments	(2,776)	(79,033)	(103,742)
Gain on the disposal of discontinued operation	(20,071)	-	-
Gain as a result of increase to control and initial consolidation	-	(1,884)	(2,096)
Revaluation of long-term receivable and liabilities, net	583	(319)	(3,902)
Increase (decrease) in the value of short-term investments	(335)	657	(2,465)
Cost of share-based payment	1,045	628	3,399
Changes in asset and liability items:			
decrease (Increase) in inventory and inventory of real estate	(23,403)	(11,351)	26,616
decrease (Increase) in trade receivables	12,110	(8,351)	(26,560)
Increase in other accounts receivable	(37,890)	(10,928)	(16,988)
Increase (decrease) in suppliers and providers of services	(4,434)	4,520	22,281
Increase (decrease) in other accounts payable	(3,546)	(30,754)	32,098
	<u>(69,464)</u>	<u>(124,880)</u>	<u>(83,500)</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**

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	<u>Unaudited</u>		<u>Audited</u>
Working capital, net (except cash and cash equivalents)	16,793	442	4,510
Fixed assets	(711)	(205)	(288)
Other non-current assets	(814)	-	-
Investment in entities accounted for at equity	-	2,054	2,054
Intangible assets	(40,180)	(8,310)	(22,632)
Goodwill	(39,159)	(4,401)	(5,834)
Deferred taxes	6,884	2,077	4,780
Non-current liabilities	30,721	88	293
Non-controlling interests	(224)	-	-
Conditional liability	2,784	-	-
Liability for put option	-	3,756	3,756
Gain as a result of an increase to control	-	1,884	2,096
	<u>(23,906)</u>	<u>(2,615)</u>	<u>(11,265)</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 C' - Further information on cash flows

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Cash paid in the period for:			
Interest	5,925	5,535	38,536
Taxes on income	9,907	2,094	41,356
Cash received for:			
Interest	1,160	825	4,253
Taxes on income	46	1,373	2,597

Appendix D' – Significant activities not involving cash flows

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Dividend payable	10,055	8,384	10,802

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 March 31, 2016 and for the period of three months ended on that date (hereinafter - interim consolidated financial statements).

The interim financial statements should be read together with the Company's annual financial statements as of December 31, 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 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 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.