

ELCO LIMITED

Annual Report
Convenience Translation into US Dollars

2017

ELCO LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2017

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Auditors' Report to the Shareholders of Elco Ltd.

Regarding the Audit of Components of Internal Control over Financial Reporting

Pursuant to Section 9b(c) to the Israeli Securities Regulations (Periodic and Immediate Reports), 1970

We have audited the components of the internal control over financial reporting of Elco Ltd. and its subsidiaries (hereinafter, collectively- the Company) as of December 31, 2017. These control components were determined as explained in the following paragraph. The Company's Board of Directors and management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of the internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the Company's components of internal control over financial reporting based on our audits.

We did not audit the components of the internal control over financial reporting of a subsidiary company that has been consolidated, the assets and revenues of which that have been included in the consolidation constitute approximately 11% and approximately 6% respectively of the relevant amounts in the consolidated financial statements as of December 31, 2017 and for the year ended on that date. The effectiveness of the components of the internal control over financial reporting of that company were audited by other auditors whose reports have been furnished to us and our opinion, is so far as it related to the effectiveness of the components of the internal control over financial reporting of that company is based on the reports of the other auditors.

The components of internal control over financial reporting that have been audited were determined in conformity with Auditing standard 104 of the Institute of Certified Public Accountants in Israel, "Audit of Components of Internal Control over Financial Reporting" and the amendments thereto, ("Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls, (2) controls over the recording of income from works under construction contracts, (3) controls over the inventory of real estate and income-generating real estate, (4) controls over income from rentals and management fees from income-generating real estate, (5) controls over loans to finance income-generating real estate and (6) controls over inventory and the purchase of inventory (hereinafter, collectively- the audited control components).

We conducted our audit in accordance with Auditing Standard 104. That standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control components based on the assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited ones and accordingly, our opinion does not take into account any such possible effects. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion within the context described above.

Because of its inherent limitations, internal control over financial reporting as a whole and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in circumstances, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, based on our audit and the reports of other auditors, the Company has effectively maintained, in all material aspects, the audited control components as of December 31, 2017.

We have also audited the Company's consolidated financial statements as of December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, in accordance with generally accepted auditing standards in Israel and our report, dated March 28, 2018, included an unqualified opinion on those financial statements, based on our audit and the reports of the other auditors.

AUDITORS' REPORT TO THE SHAREHOLDERS OF ELCO LIMITED

We have audited the accompanying consolidated statements of financial position of Elco Ltd. (hereinafter- the Company) as of December 31, 2017 and 2016 and the consolidated statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended on December 31, 2017. These financial statements are the responsibility of the Company's Board of Directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 11% and approximately 18% of the total consolidated assets as of December 31, 2017 and 2016, respectively, and whose revenues constitute approximately 6%, approximately 6% and approximately 5% of the total consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively. Furthermore, we did not audit the financial statements of certain companies accounted for at equity, the investments in which amounted to approximately US\$ 93,888 thousand and approximately US\$ 79,115 thousand as of December 31, 2017 and 2016, respectively and the Company's shares of their profits amounted to approximately US\$ 3,309 thousand, approximately US\$ 3,138 thousand and approximately US\$ 2,582 thousand for the years ended December 31, 2017, 2016 and 2015, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the company's Board of Directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The attached financial statements in US Dollars are a convenience translation of the statements as prepared in New Israeli Shekels at the rate of exchange of the Shekel into US Dollars prevailing on December 31, 2017 (see Note 2 to the financial statements).

In our opinion, based on our audit and on the reports of the other auditors, the abovementioned financial statements present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2017 and 2016, and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, and this in accordance with International Financial Reporting Standards (IFRS) and the provisions in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited components of internal control over financial reporting of the Company as of December 31, 2017, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of Components of Internal Control over Financial Reporting" and our report, dated March 28, 2018, included an unqualified opinion on the effective maintenance of those components.

KOST FORER GABBAY & KASIERER
Certified Public Accountants

March 28, 2018

ELCO LIMITED**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)**

	December 31	
	2017	2016
Current assets		
Cash and cash equivalents	213,584	287,127
Short-term investments	117,824	55,792
Trade receivables	396,319	343,784
Other receivables	335,214	284,003
Inventory, inventory of real estate and residential apartments	292,504	252,701
Assets held for sale	28,289	57,264
	<u>1,383,734</u>	<u>1,280,671</u>
Non-current assets		
Long-term receivables	31,155	25,616
Receivables for concession arrangement for the provision of services	26,257	28,711
Investments in entities accounted for at equity	320,317	351,076
Long-term inventory of real estate	19,030	16,883
Income-generating assets	164,691	103,153
Fixed Assets	150,420	96,187
Goodwill and other intangible assets	597,056	223,664
Deferred taxes	10,134	1,085
	<u>1,319,060</u>	<u>846,375</u>
	<u>2,702,794</u>	<u>2,127,046</u>

The accompanying notes are an integral part of the consolidated financial statements.

March 28, 2018

Date of the approval of the financial statements

ELCO LIMITED**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)**

	December 31	
	2017	2016
Current Liabilities		
Credit from banks and others	85,557	75,168
Bonds - current maturities	71,487	68,001
Suppliers and providers of services	524,900	440,042
Other payables	409,492	390,354
Liabilities in respect of assets held for sale	-	24,342
	<u>1,091,436</u>	<u>997,907</u>
Non-Current Liabilities		
Liabilities to banks and financial institutions	192,574	66,221
Bonds	366,564	370,145
Other liabilities	352,923	81,704
Employee benefit liabilities, net	16,477	15,933
Deferred taxes	56,515	41,795
	<u>985,053</u>	<u>575,798</u>
Equity		
Equity attributable to shareholders in the company	341,060	305,449
Non-controlling interests	285,245	247,892
	<u>626,305</u>	<u>553,341</u>
	<u><u>2,702,794</u></u>	<u><u>2,127,046</u></u>

The accompanying notes are an integral part of the consolidated financial statements.

E. Vessely
Chief Financial Officer

M. Salkind
Joint Managing Director

M. Friedman
Chairman of the Board of
Directors

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

	For the year ended December 31		
	2017	2016	2015
Continuing operations			
Revenues, net	2,611,406	2,175,739	1,965,244
Adjustment of the fair value and the results of the disposal of income-generating assets, net	3,599	7,548	(1,587)
Group's share of the profits of entities accounted for at equity, net	9,694	21,240	21,200
Other income	9,496	111,384	2,899
Total	2,634,195	2,315,911	1,987,756
Cost of producing revenues	(2,253,538)	(1,889,115)	(1,711,554)
Selling and marketing expenses	(157,093)	(132,721)	(122,766)
Administrative and general expenses	(80,228)	(77,009)	(72,277)
Other expenses	(8,124)	(4,686)	(4,877)
Financial income	16,714	9,503	9,046
Financing expenses	(53,700)	(42,084)	(44,211)
Total	(2,535,969)	(2,136,112)	(1,946,639)
Income before taxes on income	98,226	179,799	41,117
Taxes on income	(25,667)	(28,692)	(10,560)
Income from continuing operations	72,559	151,107	30,557
Operating income (loss) from discontinued operations	16,360	(2,011)	589
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	(15,895)	-	-
Net income	73,024	149,096	31,146
Attributable to:			
Shareholders in the company	33,597	112,674	11,661
Non-controlling interests	39,427	36,422	19,485
	73,024	149,096	31,146
Earnings (loss) per share - attributable to the Equity holders of the Company:			
Basic - Earnings (loss)			
From continuing operations	1.26	4.12	0.41
From discontinued operations	(0.04)	(0.03)	0.01
	1.22	4.09	0.42
Fully diluted - Earnings (loss)			
From continuing operations	1.17	4.09	0.40
From discontinued operations	(0.04)	(0.03)	0.01
	1.13	4.06	0.41

The accompanying notes are an integral part of the consolidated financial statements.

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

	For the year ended December 31		
	2017	2016	2015
Net income (loss)	73,024	149,096	31,146
Other comprehensive income (loss) (after tax effects):			
Amounts that will not be reclassified to profit or loss in subsequent periods:			
Loss on financial assets that are measured at fair value through other comprehensive income, net	(1,871)	-	(612)
Loss from the re-measurement of defined benefit plans, net	(517)	(52)	(995)
	<u>(2,388)</u>	<u>(52)</u>	<u>(1,607)</u>
Amounts that will be classified or reclassified to profit or loss when specific conditions are met:			
Adjustment deriving from the translation of the financial statements of foreign operations, net	(13,930)	(14,305)	(40,829)
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	15,895	-	-
Gain (loss) on hedging transactions, net	704	(1,204)	(3,670)
	<u>2,669</u>	<u>(15,509)</u>	<u>(44,499)</u>
Total other comprehensive income (loss)	<u>281</u>	<u>(15,561)</u>	<u>(46,106)</u>
Total comprehensive income (loss)	<u><u>73,305</u></u>	<u><u>133,535</u></u>	<u><u>(14,960)</u></u>
Comprehensive income (loss) attributable to:			
Shareholders in the company	34,172	102,780	(12,173)
Non-controlling interests	39,133	30,755	(2,787)
	<u><u>73,305</u></u>	<u><u>133,535</u></u>	<u><u>(14,960)</u></u>

The accompanying notes are an integral part of the 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		
Balance as of January 1, 2017	32,880	15,912	(53,248)	443,738	139	(52,981)	2,691	(968)	(101,273)	8,770	9,789	305,449	247,892	553,341
Net profit	-	-	-	33,597	-	-	-	-	-	-	-	33,597	39,427	73,024
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(7,081)	-	-	(7,081)	(6,849)	(13,930)
Reclassification from the translation differences reserve in connection with operations that have been disposed of in Canada	-	-	-	-	-	-	-	-	8,706	-	-	8,706	7,189	15,895
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(277)	-	-	-	(277)	(240)	(517)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(1,139)	-	-	-	-	-	(1,139)	(732)	(1,871)
Gain on hedging transactions	-	-	-	-	-	-	366	-	-	-	-	366	338	704
Total other comprehensive loss	-	-	-	-	-	(1,139)	366	(277)	1,625	-	-	575	(294)	281
Total comprehensive income (loss)	-	-	-	33,597	-	(1,139)	366	(277)	1,625	-	-	34,172	39,133	73,305
Cost of share-based payment	-	-	-	-	-	-	-	-	-	367	-	367	4,741	5,108
Dividend to shareholders in the company	-	-	-	(7,211)	-	-	-	-	-	-	-	(7,211)	-	(7,211)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(23,095)	(23,095)
Issuance of capital /sale of shares in a consolidated company to non-controlling interests	-	-	-	9,017	-	-	8	110	646	-	-	9,781	11,306	21,087
Initial consolidation of companies	-	-	-	-	-	-	-	-	-	-	-	-	4,403	4,403
Acquisition of non-controlling interests	-	-	-	21	-	-	-	-	-	-	-	21	850	871
Acquisition of treasury shares in subsidiary companies	-	-	-	(1,851)	-	-	-	-	-	-	-	(1,851)	(1,520)	(3,371)
Exercise of option warrants	-	3	-	-	-	-	-	-	-	-	-	3	86	89
Transaction with controlling interests	-	-	-	-	329	-	-	-	-	-	-	329	270	599
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,179	1,179
As of December 31, 2017	32,880	15,915	(53,248)	477,311	468	(54,120)	3,065	(1,135)	(99,002)	9,137	9,789	341,060	285,245	626,305

The accompanying notes are an integral part of the 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		
Balance as of January 1, 2016	32,880	15,912	(53,248)	336,500	139	(52,981)	3,331	(934)	(92,053)	8,236	9,789	207,571	225,573	433,144
Net profit	-	-	-	112,674	-	-	-	-	-	-	-	112,674	36,422	149,096
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(9,220)	-	-	(9,220)	(5,085)	(14,305)
Gain on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(34)	-	-	-	(34)	(18)	(52)
Loss on hedging transactions	-	-	-	-	-	-	(640)	-	-	-	-	(640)	(564)	(1,204)
Total other comprehensive loss	-	-	-	-	-	-	(640)	(34)	(9,220)	-	-	(9,894)	(5,667)	(15,561)
Total comprehensive income (loss)	-	-	-	112,674	-	-	(640)	(34)	(9,220)	-	-	102,780	30,755	133,535
Cost of share-based payment	-	-	-	-	-	-	-	-	-	534	-	534	3,027	3,561
Dividend to shareholders in the company	-	-	-	(5,886)	-	-	-	-	-	-	-	(5,886)	-	(5,886)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(22,464)	(22,464)
Purchase of non-controlling interests	-	-	-	450	-	-	-	-	-	-	-	450	(3,885)	(3,435)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	14,886	14,886
As of December 31, 2016	32,880	15,912	(53,248)	443,738	139	(52,981)	2,691	(968)	(101,273)	8,770	9,789	305,449	247,892	553,341

The accompanying notes are an integral part of the 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													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	Non-controlling interests	
Balance as of January 1, 2015	32,880	15,912	(53,248)	330,578	139	(52,623)	5,481	(347)	(71,444)	7,427	9,789	224,544	237,718	462,262
Changes following the initial implementation of IFRS 15	-	-	-	1,068	-	-	-	-	-	-	-	1,068	871	1,939
Balance as of January 1, 2015 following the initial implementation of IFRS 15	32,880	15,912	(53,248)	331,646	139	(52,623)	5,481	(347)	(71,444)	7,427	9,789	225,612	238,589	464,201
Net profit	-	-	-	11,661	-	-	-	-	-	-	-	11,661	19,485	31,146
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(20,739)	-	-	(20,739)	(20,090)	(40,829)
Gain on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(587)	-	-	-	(587)	(408)	(995)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(358)	-	-	-	-	-	(358)	(254)	(612)
Loss on hedging transactions	-	-	-	-	-	-	(2,150)	-	-	-	-	(2,150)	(1,520)	(3,670)
Total other comprehensive loss	-	-	-	-	-	(358)	(2,150)	(587)	(20,739)	-	-	(23,834)	(22,272)	(46,106)
Total comprehensive income (loss)	-	-	-	11,661	-	(358)	(2,150)	(587)	(20,739)	-	-	(12,173)	(2,787)	(14,960)
Cost of share-based payment	-	-	-	-	-	-	-	-	-	809	-	809	2,441	3,250
Dividend to shareholders in the company	-	-	-	(5,830)	-	-	-	-	-	-	-	(5,830)	-	(5,830)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(13,677)	(13,677)
Purchase of treasury shares in subsidiary companies	-	-	-	(977)	-	-	-	-	130	-	-	(847)	(37)	(884)
Initially consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	386	386
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	658	658
As of December 31, 2015	32,880	15,912	(53,248)	336,500	139	(52,981)	3,331	(934)	(92,053)	8,236	9,789	207,571	225,573	433,144

The accompanying notes are an integral part of the consolidated financial statements.

ELCO LIMITED**CONSOLIDATED CASH FLOW STATEMENTS****CONVENIENCE TRANSLATION INTO US DOLLARS** (in thousands)

	For the year ended December 31		
	2017	2016	2015
Cash flows from operating activities:			
Net income (loss)	73,024	149,096	31,146
Adjustments required in order to present the cash flows from operating activities (Appendix A')	52,973	(87,474)	35,388
Net cash generated by operating activities *)	125,997	61,622	66,534
Cash flows from investment activities:			
Acquisition of fixed assets and intangible assets	(48,203)	(32,868)	(27,268)
Capitalization of customer acquisition costs	(4,356)	-	-
Acquisition and construction of income generating assets	(36,610)	(7,658)	(11,911)
Newly consolidated subsidiaries and activities (Appendix B')	(105,562)	(11,801)	(6,872)
Investment in shares of affiliated and other companies	(51,486)	(63,787)	(23,738)
Purchase of short-term investments, net	(47,591)	(27,188)	(6,297)
Consideration from the disposal of fixed and income-generating assets and investments	83,522	452,222	115,606
Net consideration from the sale of operation	29,254	-	-
Decrease (increase) in long term receivables, net	(1,585)	148	1,489
Net cash generated (absorbed) by investment activities *)	(182,617)	309,068	41,009
Cash flows from financing activities:			
Dividend paid to shareholders in the company	(7,211)	(5,886)	(5,830)
Dividend paid to non-controlling interests	(30,047)	(11,149)	(13,677)
Issuance of bonds	67,486	105,113	96,684
Sale of shares in a consolidated company to non-controlling interests	21,087	-	-
Repayment of long-term liabilities	(165,820)	(385,382)	(248,083)
Receipt of long-term liabilities	139,121	21,720	83,212
Short-term bank credit, net	(38,566)	(31,561)	(28,882)
Exercise of option warrants	89	-	-
Issuance of shares to non-controlling interests in consolidated companies	1,179	14,886	658
Purchase of treasury shares in the Company and in consolidated companies	(3,371)	(3,435)	(884)
Net cash absorbed by financing activities *)	(16,053)	(295,694)	(116,802)
Translation differences in respect of cash and cash equivalent balances	(870)	(9,796)	(1,061)
Increase (decrease) in cash and cash equivalents	(73,543)	65,200	(10,320)
Balance of cash and cash equivalents at the beginning of the year	287,127	221,927	232,247
Balance of cash and cash equivalents at the end of the year	213,584	287,127	221,927

*) Includes cash in respect of discontinued activities.

The accompanying notes are an integral part of the consolidated financial statements.

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

Appendix A' – Adjustments to present the cash flows from operating activities

	For the year ended December 31		
	2017	2016	2015
Income and expenses not involving cash flows: *)			
The Group's share of the profits of companies accounted for at equity, net	(9,694)	(21,240)	(5,267)
Dividends and interest received from companies accounted for at equity	27,587	17,682	25,201
Success fee in respect of increase in the value of housing complexes (Promote)	(6,971)	(6,873)	-
Adjustments of the fair value and the results of the disposal of income-generating assets, net	3,729	(7,548)	2,303
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	15,895	-	-
Change in the fair value of a financial asset through profit and loss	(6,967)	-	-
Depreciation and amortization	55,170	29,472	25,541
Deferred taxes, net	1,418	(24,639)	(14,087)
Increase in employee benefit liabilities	(2,170)	426	684
Capital gain on the sale of fixed assets and other investments	(6,599)	(108,679)	(2,152)
Gain on the disposal of discontinued operation	(21,026)	-	-
Gain as a result of an increase to control and initial consolidation	-	(2,196)	(896)
Revaluation of long-term receivables and liabilities, net	7,453	(4,088)	(1,938)
Increase in value of short-term investments	(3,379)	(2,582)	(546)
Cost of share-based payments	5,108	3,561	3,250
Changes in asset and liability items:			
Decrease (increase) in inventory and inventory of real estate	(8,838)	27,883	12,353
Increase in trade receivables	(15,326)	(27,824)	(12,613)
Increase in other accounts receivable	(17,367)	(17,796)	(34,241)
Increase in suppliers and providers of services	71,002	23,342	7,092
Increase (decrease) in other accounts payable	(36,052)	33,625	30,704
	<u>52,973</u>	<u>(87,474)</u>	<u>35,388</u>

*) Includes cash in respect of discontinued activities.

The accompanying notes are an integral part of the consolidated financial statements.

ELCO LIMITED**CONSOLIDATED CASH FLOWS STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)****Appendix B' - Investment in newly consolidated subsidiaries and activities**

	For the year ended December 31		
	2017	2016	2015
Working capital, net (except cash)	43,664	4,725	(3,942)
Restricted cash	(11,797)	-	-
Investment in marketable securities and deposits in trust	-	-	(646)
Fixed assets	(58,054)	(302)	(1,261)
Investment in entities accounted for at equity	-	2,151	385
Intangible assets	(89,975)	(23,709)	(7,469)
Goodwill	(313,859)	(6,111)	(6,248)
Non-current assets	(820)	-	-
Deferred taxes	2,264	5,008	3,115
Loans from banks and others	68,647	-	-
Non-current liabilities	209,864	307	2,107
Payables for conditional consideration	7,128	-	2,492
Liability for put option and future dividends for non-controlling interests	32,973	3,934	3,313
Non-controlling interests	4,403	-	386
Gain as a result of an increase to control and initial consolidation	-	2,196	896
	<u>(105,562)</u>	<u>(11,801)</u>	<u>(6,872)</u>

The accompanying notes are an integral part of the consolidated financial statements

ELCO LIMITED**CONSOLIDATED CASH FLOWS STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)**

Appendix C' - Additional information on cash flows

	For the year ended December 31		
	2017	2016	2015
Cash paid during the year for:			
Interest	<u>46,298</u>	<u>40,369</u>	<u>44,173</u>
Income tax	<u>34,948</u>	<u>43,324</u>	<u>10,486</u>
Cash received during the year for:			
Interest	<u>5,599</u>	<u>4,455</u>	<u>3,126</u>
Income tax	<u>855</u>	<u>2,721</u>	<u>4,376</u>

Appendix D' - Significant activities not involving cash flows

	For the year ended December 31		
	2017	2016	2015
Acquisition of fixed assets, investment property and intangible assets	<u>28,037</u>	<u>2,629</u>	<u>3,310</u>
Liabilities to owners of land	<u>34,240</u>	<u>15,688</u>	<u>-</u>
Dividend payable to non-controlling interests	<u>2,333</u>	<u>11,315</u>	<u>-</u>

The accompanying notes are an integral part of the consolidated financial statements

Note 1 - General description of the Company and its activities

Elco Ltd. (hereinafter - The Company), was incorporated in Israel in the year 1949 and its shares are traded on the Stock Exchange in Israel.

As of the date of the financial statements, the Group operates in Israel and abroad in three segments, in accordance with its investee companies, as follow:

- Electra** - Operates in the field of services for buildings and infrastructures in Israel and abroad, which includes: the instillation and provision of service for central air-conditioning systems, elevators, sanitation, infrastructures, the execution and construction of national infrastructure facilities, integrated security and protection solutions, electricity and piping, construction, the supervision and management of real estate, entrepreneurial real estate activity, the management and the maintenance of assets.

- Electra Consumer Products** - Operates in Israel in the importing, manufacturing, exporting, marketing, sale and distribution of electrical consumer products and in the provision of services for products, in the operation of retail marketing chains for the sale of electrical products, in the operation of cellular telecommunications through Golan Telecom and in the field of investment property.

Until March 1, 2017, it also operated in the "Do It yourself" field. Following the sale of the "Ace" and the "Auto Depot" chains, the activity in this field has been discontinued.

- Electra Real Estate** - Focuses on activity in the field of the purchase, management and enhancement of housing complexes for rental in the South Eastern United States, which are held directly by the Company and by the Investments in Housing Complexes in the United States Fund, and in the disposal of income-generating real estate and entrepreneurial real estate assets in which it has invested in the past ("The strategic disposal assets").

Note 2 - 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 December 31, 2017 (NIS 3.467 = 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.