

ELCO LIMITED

Interim Consolidated Financial Statements

As of June 30, 2018

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 June 30, 2018, the condensed consolidated statements of profit or loss, of comprehensive income, of changes in equity and of cash flows, for the periods of six 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 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 8% of the total consolidated assets as of June 30, 2018, and whose revenues constitute approximately 1.8% and approximately 0.1% of the total consolidated revenues for the periods of six months and of three months ended on that date, respectively. 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\$ 86,486 thousand as of June 30, 2018 and the Group's share of their profits amounted to approximately US\$ 1,268 thousand and to approximately US\$ 612 thousand for the periods of six months and of three months ended on that date, respectively. 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, August 22, 2018

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

	June 30		December 31
	2018	2017	2017
	Unaudited		Audited
Current assets			
Cash and cash equivalents	106,375	112,630	202,876
Short-term investments	124,448	142,549	111,917
Trade receivables	367,508	366,250	376,449
Other accounts receivables	349,926	353,551	318,407
Inventory, inventory of real estate and residential apartments	344,017	293,166	277,838
Assets held for sale	59,206	16,219	26,871
	<u>1,351,480</u>	<u>1,284,365</u>	<u>1,314,358</u>
Non-current assets			
Long-term receivables	16,255	38,646	29,593
Receivables for concession arrangement for the provision of services	23,822	26,273	24,941
Investment in entities accounted for at equity	298,638	329,666	301,149
Long-term inventory of real estate	18,507	18,317	18,076
Income generating assets	127,822	154,219	156,434
Fixed assets	134,484	119,924	142,878
Goodwill and other intangible assets	570,283	535,965	567,121
Deferred tax assets	10,474	7,119	9,626
	<u>1,200,285</u>	<u>1,230,129</u>	<u>1,249,818</u>
	<u>2,551,765</u>	<u>2,514,494</u>	<u>2,564,176</u>

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

August 22, 2018
Date of approval of financial statements

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

	June 30		December 31
	2018	2017	2017
	Unaudited		Audited
Current Liabilities			
Credit from banking institutions and others	115,230	99,190	81,268
Bonds - current maturities	86,287	64,703	67,903
Suppliers and providers of services	454,300	458,576	498,583
Other payables	381,267	418,063	388,961
Liabilities in respect of assets held for sale	-	1,164	-
	<u>1,037,084</u>	<u>1,041,696</u>	<u>1,036,715</u>
Long-Term Liabilities			
Liabilities to banks and financial institutions	234,519	230,484	182,919
Bonds	312,511	319,321	348,185
Other liabilities	307,796	293,889	335,229
Employee benefit liabilities	15,235	15,328	15,652
Deferred taxes	57,077	48,318	53,681
	<u>927,138</u>	<u>907,340</u>	<u>935,666</u>
Equity			
Equity attributable to equity holders of the Company	320,255	312,888	322,323
Non-controlling interests	267,288	252,570	269,472
Total equity	<u>587,543</u>	<u>565,458</u>	<u>591,795</u>
	<u>2,551,765</u>	<u>2,514,494</u>	<u>2,564,176</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)

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
Revenues, net	1,233,917	1,160,658	611,582	619,925	2,480,478
Adjustment of the fair value and the results of the disposal of income-generating assets, net	7,043	4,899	7,633	6,021	3,418
Group's share of the profits of companies accounted for at equity, net	(3,101)	5,350	(8,782)	1,774	10,273
Other income	761	2,996	132	185	9,020
Total	1,238,620	1,173,903	610,565	627,905	2,503,189
Cost of producing revenues	(1,063,696)	(1,001,449)	(524,476)	(528,035)	(2,140,553)
Selling and marketing expenses	(75,228)	(66,772)	(37,753)	(36,336)	(149,217)
Administrative and general expenses	(38,904)	(37,504)	(18,051)	(19,732)	(76,206)
Other expenses	(9,042)	(1,226)	(8,692)	(409)	(7,717)
Financing income	8,362	7,687	4,367	2,086	15,876
Financing expenses	(24,990)	(25,284)	(11,321)	(14,152)	(51,008)
Total	(1,203,498)	(1,124,548)	(595,926)	(596,578)	(2,408,825)
Income before taxes on income	35,122	49,355	14,639	31,327	94,364
Taxes on income	(13,033)	(15,618)	(6,415)	(10,083)	(24,380)
Income from continuing operations	22,089	33,737	8,224	21,244	69,984
Operating income (loss) from discontinued operations, net	-	15,825	-	(2,719)	15,540
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	-	-	-	-	(15,097)
Net income	22,089	49,562	8,224	18,525	70,427
Attributable to:					
Equity holders in the Company	8,239	22,984	3,482	8,154	32,470
Non-controlling interest	13,850	26,578	4,742	10,371	37,957
	22,089	49,562	8,224	18,525	70,427
Earnings per share - attributable to the Equity holders of the Company:					
Basic - Earnings					
From continuing operations	0.30	0.52	0.13	0.36	1.22
From discontinued operations	-	0.31	-	(0.06)	(0.04)
	0.30	0.83	0.13	0.30	1.18
Fully diluted - Earnings					
From continuing operations	0.28	0.47	0.12	0.33	1.14
From discontinued operations	-	0.31	-	(0.06)	(0.04)
	0.28	0.78	0.12	0.27	1.10

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)

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
Net income	22,089	49,562	8,224	18,525	70,427
Other comprehensive income (loss) (after tax effects):					
Amounts that will never be reclassified to profit or loss:					
Loss on financial assets that are measured at fair value through other comprehensive income, net	-	-	-	-	(1,777)
Loss from the re-measurement of defined benefit plans	-	-	-	-	(491)
	-	-	-	-	(2,268)
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, net	7,325	(16,722)	15	(7,986)	(13,232)
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	-	-	-	-	15,097
Gain (loss) on hedging transactions	274	(1,063)	(129)	63	669
	7,599	(17,785)	(114)	(7,923)	2,534
Total other comprehensive income (loss)	7,599	(17,785)	(114)	(7,923)	266
Total comprehensive income	29,688	31,777	8,110	10,602	70,693
Comprehensive income attributable to:					
Equity holders in the company	12,762	13,119	3,796	4,511	33,015
Non-controlling interests	16,926	18,658	4,314	6,091	37,678
	29,688	31,777	8,110	10,602	70,693

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, 2018	31,232	15,117	(50,578)	451,743	444	(51,406)	2,911	(1,078)	(94,038)	8,678	9,298	322,323	269,472	591,795
Changes following the initial implementation of IFRS 9	-	-	-	(715)	-	-	-	-	-	-	-	(715)	(642)	(1,357)
Balance as of January 1, 2018 following the initial implementation of IFRS 9	31,232	15,117	(50,578)	451,028	444	(51,406)	2,911	(1,078)	(94,038)	8,678	9,298	321,680	268,830	590,438
Net income	-	-	-	8,239	-	-	-	-	-	-	-	8,239	13,850	22,089
Other comprehensive loss:														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	4,379	-	-	4,379	2,946	7,325
Gain on hedging transactions	-	-	-	-	-	-	144	-	-	-	-	144	130	274
Total other comprehensive income	-	-	-	-	-	-	144	-	4,379	-	-	4,523	3,076	7,599
Total comprehensive income	-	-	-	8,239	-	-	144	-	4,379	-	-	12,762	16,926	29,688
Cost of share-based payment	-	-	-	-	-	-	-	-	-	94	-	94	1,278	1,372
Dividend to shareholders in the company	-	-	-	(8,219)	-	-	-	-	-	-	-	(8,219)	-	(8,219)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(16,858)	(16,858)
Acquisition of treasury shares in subsidiary companies	-	-	-	(4,734)	-	-	-	-	-	-	-	(4,734)	(4,165)	(8,899)
Disposal of income generating asset that was owner occupied in the past	-	-	-	9,298	-	-	-	-	-	-	(9,298)	-	-	-
Issuance of capital /purchase and sale of shares in a consolidated companies	-	-	-	(1,186)	-	-	-	18	(89)	-	-	(1,257)	1,277	20
Exercise of option warrants	-	1	-	-	-	-	-	-	-	-	-	1	-	1
As of June 30, 2018	31,232	15,118	(50,578)	454,426	444	(51,406)	3,055	(1,060)	(89,748)	8,772	-	320,255	267,288	587,543

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 January 1, 2017	31,232	15,114	(50,578)	419,296	131	(50,324)	2,556	(920)	(96,195)	8,330	9,298	287,940	233,485	521,425
Net income	-	-	-	22,984	-	-	-	-	-	-	-	22,984	26,578	49,562
Other comprehensive loss:														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(9,300)	-	-	(9,300)	(7,422)	(16,722)
Loss on hedging transactions	-	-	-	-	-	-	(565)	-	-	-	-	(565)	(498)	(1,063)
Total other comprehensive loss	-	-	-	-	-	-	(565)	-	(9,300)	-	-	(9,865)	(7,920)	(17,785)
Total comprehensive income (loss)	-	-	-	22,984	-	-	(565)	-	(9,300)	-	-	13,119	18,658	31,777
Cost of share-based payment	-	-	-	-	-	-	-	-	-	174	-	174	2,639	2,813
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(12,656)	(12,656)
Sale of shares in a consolidated company to non-controlling interests	-	-	-	11,412	-	-	-	93	131	-	-	11,636	8,394	20,030
Initial consolidation of companies	-	-	-	-	-	-	-	-	-	-	-	-	181	181
Acquisition of non-controlling interests	-	-	-	16	-	-	-	-	-	-	-	16	327	343
Exercise of option warrants	-	3	-	-	-	-	-	-	-	-	-	3	-	3
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,542	1,542
Balance as of June 30, 2017	31,232	15,117	(50,578)	453,708	131	(50,324)	1,991	(827)	(105,364)	8,504	9,298	312,888	252,570	565,458

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 April 1, 2018	31,232	15,118	(50,578)	442,268	444	(51,406)	3,123	(1,060)	(90,026)	8,725	9,298	317,138	263,655	580,793
Net income	-	-	-	3,482	-	-	-	-	-	-	-	3,482	4,742	8,224
Other comprehensive loss:														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	382	-	-	382	(367)	15
Loss on hedging transactions	-	-	-	-	-	-	(68)	-	-	-	-	(68)	(61)	(129)
Total other comprehensive income	-	-	-	-	-	-	(68)	-	382	-	-	314	(428)	(114)
Total comprehensive income	-	-	-	3,482	-	-	(68)	-	382	-	-	3,796	4,314	8,110
Cost of share-based payment	-	-	-	-	-	-	-	-	-	47	-	47	538	585
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(712)	(712)
Acquisition of treasury shares in subsidiary companies	-	-	-	(1,026)	-	-	-	-	-	-	-	(1,026)	(917)	(1,943)
Disposal of income generating asset that was owner occupied in the past	-	-	-	9,298	-	-	-	-	-	-	(9,298)	-	-	-
Issuance of capital /purchase and sale of shares in a consolidated companies	-	-	-	404	-	-	-	-	(104)	-	-	300	410	710
As of June 30, 2018	31,232	15,118	(50,578)	454,426	444	(51,406)	3,055	(1,060)	(89,748)	8,772	-	320,255	267,288	587,543

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											Total	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			
	Unaudited													
Balance as of April 1, 2017	31,232	15,114	(50,578)	445,553	131	(50,324)	1,957	(827)	(101,687)	8,417	9,298	308,286	243,911	552,197
Net income	-	-	-	8,154	-	-	-	-	-	-	-	8,154	10,371	18,525
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(3,677)	-	-	(3,677)	(4,309)	(7,986)
Gain on hedging transactions	-	-	-	-	-	-	34	-	-	-	-	34	29	63
Total other comprehensive loss	-	-	-	-	-	-	34	-	(3,677)	-	-	(3,643)	(4,280)	(7,923)
Total comprehensive income (loss)	-	-	-	8,154	-	-	34	-	(3,677)	-	-	4,511	6,091	10,602
Cost of share-based payment	-	-	-	-	-	-	-	-	-	87	-	87	1,686	1,773
Initial consolidation of companies	-	-	-	-	-	-	-	-	-	-	-	-	404	404
Acquisition of non-controlling interests	-	-	-	1	-	-	-	-	-	-	-	1	55	56
Exercise of option warrants	-	3	-	-	-	-	-	-	-	-	-	3	-	3
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	423	423
Balance as of June 30, 2017	31,232	15,117	(50,578)	453,708	131	(50,324)	1,991	(827)	(105,364)	8,504	9,298	312,888	252,570	565,458

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													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	
	Audited													
Balance as of January 1, 2017	31,232	15,114	(50,578)	419,296	131	(50,324)	2,556	(920)	(96,195)	8,330	9,298	287,940	233,485	521,425
Net profit	-	-	-	32,470	-	-	-	-	-	-	-	32,470	37,957	70,427
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(6,726)	-	-	(6,726)	(6,506)	(13,232)
Reclassification from the translation differences reserve in connection with operations that have been disposed of in Canada	-	-	-	-	-	-	-	-	8,269	-	-	8,269	6,828	15,097
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(263)	-	-	-	(263)	(228)	(491)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(1,082)	-	-	-	-	-	(1,082)	(695)	(1,777)
Gain on hedging transactions	-	-	-	-	-	-	347	-	-	-	-	347	322	669
Total other comprehensive income (loss)	-	-	-	-	-	(1,082)	347	(263)	1,543	-	-	545	(279)	266
Total comprehensive income (loss)	-	-	-	32,470	-	(1,082)	347	(263)	1,543	-	-	33,015	37,678	70,693
Cost of share-based payment	-	-	-	-	-	-	-	-	-	348	-	348	4,504	4,852
Dividend to shareholders in the company	-	-	-	(6,849)	-	-	-	-	-	-	-	(6,849)	-	(6,849)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(21,937)	(21,937)
Issuance of capital /sale of shares in a consolidated company to non-controlling interests	-	-	-	8,564	-	-	8	105	614	-	-	9,291	10,739	20,030
Initial consolidation of companies	-	-	-	-	-	-	-	-	-	-	-	-	4,182	4,182
Acquisition of non-controlling interests	-	-	-	20	-	-	-	-	-	-	-	20	808	828
Acquisition of treasury shares in subsidiary companies	-	-	-	(1,758)	-	-	-	-	-	-	-	(1,758)	(1,444)	(3,202)
Exercise of option warrants	-	3	-	-	-	-	-	-	-	-	-	3	81	84
Transaction with controlling interests	-	-	-	-	313	-	-	-	-	-	-	313	256	569
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,120	1,120
As of December 31, 2017	31,232	15,117	(50,578)	451,743	444	(51,406)	2,911	(1,078)	(94,038)	8,678	9,298	322,323	269,472	591,795

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)

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
Cash flows from operating activities:					
Net income	22,089	49,562	8,224	18,525	70,427
Adjustments required in order to present the cash flows from operating activities (Appendix A')	(26,529)	(69,762)	(6,998)	(1,701)	71,706
Net cash generated (absorbed) by operating activities (before acquisition of and investment in land)	(4,440)	(20,200)	1,226	16,824	142,133
Acquisition of and investment in land *)	(30,751)	(6,662)	(456)	(3,605)	(22,453)
Net cash generated (absorbed) by operating activities	(35,191)	(26,862)	770	13,219	119,680
Cash flows from investment activities:					
Acquisition of fixed assets and intangible assets	(16,510)	(26,432)	(8,795)	(13,792)	(45,786)
Capitalization of customer acquisition costs	(2,242)	-	(1,087)	-	(4,138)
Acquisition and construction of income generating assets	(1,316)	(29,670)	(906)	(27,603)	(34,774)
Initially consolidated companies and activities (Appendix B)	651	(43,707)	(740)	(19,919)	(100,270)
Investment in shares of affiliated and other companies	(67,080)	(63,101)	(56,204)	(25,724)	(48,905)
Purchase of short-term investments, net	(12,406)	(80,641)	7,548	56,011	(45,205)
Consideration from the disposal of fixed and income-generating assets and investments	13,805	57,445	12,427	38,746	79,334
Net consideration from the sale of operation	6,848	27,104	342	228	27,787
Decrease (increase) in long-term loans and deposits	(560)	(1,358)	(189)	(1,362)	(1,505)
Net cash generated (absorbed) by investment activities	(78,810)	(160,360)	(47,604)	6,585	(173,462)
Cash flows from financing activities:					
Dividend paid to shareholders in the company	(8,219)	-	(8,219)	-	(6,849)
Dividend to non-controlling interests	(19,074)	(20,619)	(16,679)	(10,176)	(28,540)
Issuance of bonds	-	-	-	-	64,102
Sale of shares in a consolidated company to non-controlling interests	-	20,030	-	-	20,030
Repayment of long-term liabilities	(30,374)	(52,743)	(23,616)	(44,132)	(157,506)
Receipt of long-term liabilities	62,661	110,058	45,382	97,799	132,146
Short-term bank credit, net	19,377	(30,298)	(12,933)	(94,123)	(36,632)
Exercise of option warrants and issuance of shares to non-controlling interests	827	1,542	913	423	1,204
Acquisition of treasury shares in the company and in consolidated companies	(8,899)	-	(1,943)	-	(3,202)
Net cash generated (absorbed) by financing activities	16,299	27,970	(17,095)	(50,209)	(15,247)
Translation differences in respect of cash and cash equivalents balances	1,201	(849)	(394)	201	(826)
Decrease in cash and cash equivalents	(96,501)	(160,101)	(64,323)	(30,204)	(69,855)
Balance of cash and cash equivalents at the beginning of the period	202,876	272,731	170,698	142,834	272,731
Balance of cash and cash equivalents at the end of the period	106,375	112,630	106,375	112,630	202,876

*) The acquisition of and investment in land are presented under inventories of real estate.

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:

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
Income and expenses not involving cash flows:					
The Group's share of the profits of companies accounted for at equity, net	3,101	(5,350)	8,782	(1,774)	(10,273)
Dividends and interest received from companies accounted for at equity	8,154	7,095	6,828	6,368	26,204
Success fee in respect of increase in the value of housing complexes (Promote)	(8,064)	(3,749)	(6,862)	(2,538)	(6,622)
Adjustment of fair value and the results of the disposal of income-generating assets, net	(450)	2,061	(1,040)	939	3,542
Change in the fair value of a financial asset through profit and loss	(6,593)	(6,618)	(6,593)	(6,618)	(6,618)
Reclassification from reserve on translation differences on the realization of a transaction and the disposal of operations	(1,250)	-	-	-	15,098
Depreciation and amortization	22,576	19,718	11,314	12,166	40,753
Amortization of customer acquisition expenses	3,985	-	2,053	-	4,774
Impairment in value of intangible assets less commitment to sellers, net	6,857	-	6,857	-	6,877
Deferred taxes, net	1,772	2,676	1,547	801	1,348
Change in employee benefit liabilities	674	(398)	1,224	91	(2,061)
Capital gain on the sale of fixed assets and other investments	1,319	(2,890)	1,924	(127)	(6,268)
Gain on the disposal of discontinued operation	-	(19,972)	-	-	(19,972)
Revaluation of long-term receivable and liabilities, net	2,847	2,545	1,340	1,965	7,079
Decrease (increase) in the value of short-term investments	261	(2,043)	48	(1,709)	(3,210)
Cost of share-based payment	1,372	2,813	585	1,773	4,852
Changes in asset and liability items:					
Decrease (increase) in inventory and inventory of real estate (before acquisition of and investment in land)	(33,232)	(31,358)	(13,725)	(11,127)	14,058
Decrease (increase) in trade receivables	12,033	(17,450)	(291)	(29,501)	(14,557)
Decrease (increase) in other accounts receivable	4,466	(35,130)	(2,560)	2,573	(16,496)
Increase (decrease) in suppliers and providers of services	(48,960)	29,958	(8,253)	34,370	67,442
Increase (decrease) in other accounts payable	2,603	(11,670)	(10,176)	(9,353)	(34,244)
	<u>(26,529)</u>	<u>(69,762)</u>	<u>(6,998)</u>	<u>(1,701)</u>	<u>71,706</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

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
Working capital, net (except cash)	8	54,619	-	37,909	41,475
Restricted cash	-	(11,205)	-	(11,205)	(11,205)
Fixed assets	(38)	(31,912)	-	(31,205)	(55,143)
Non-current assets	-	(810)	-	-	(779)
Intangible assets	(3,504)	(81,522)	-	(41,540)	(85,464)
Goodwill	(4,019)	(256,141)	-	(217,175)	(298,123)
Deferred taxes	952	2,817	-	(4,033)	2,150
Loans from banks and others	-	65,205	-	65,205	65,205
Non-current liabilities	196	182,236	-	181,721	199,342
Non-controlling interests	-	181	-	404	4,182
Payables for conditional consideration	-	6,770	(740)	-	6,770
Collection of income receivable for cash flows in an interim period	2,966	-	-	-	-
Liability for put option and future dividends for non-controlling interests	4,090	26,055	-	-	31,320
	<u>651</u>	<u>(43,707)</u>	<u>(740)</u>	<u>(19,919)</u>	<u>(100,270)</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

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
Cash paid in the period for:					
Interest	16,395	17,593	9,564	11,697	43,977
Taxes on income	15,188	25,751	4,050	15,893	33,196
Cash received for:					
Interest	3,462	1,971	2,402	817	5,319
Taxes on income	3,858	369	3,744	323	812

Appendix D' – Significant activities not involving cash flows

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2018	2017	2018	2017	2017
	Unaudited		Unaudited		Audited
Acquisition of fixed assets, investment property and intangible assets	27,435	60,964	27,435	28,166	26,631
Liabilities to owners of land	658	34,697	-	1,898	32,523
Dividend payable to non-controlling interests and to shareholders in the company	-	2,785	-	-	2,216

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 June 30, 2018 and for the periods of six months and of three months ended on that date (hereinafter - interim consolidated financial statements).

The interim financial statements should be read together with the Company's annual financial statements as of December 31, 2017 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 June 30, 2018 (NIS 3.65 = 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.