

ELCO LIMITED

Annual Report
Convenience Translation into US Dollars

2018

ELCO LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2018

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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, 2018. 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 6.6% and approximately 1.4% respectively of the relevant amounts in the consolidated financial statements as of December 31, 2018 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, (4) controls over the process of the management of investment property, (5) controls over revenues from rental fees, management fees and success fees (Promote), (6) controls over the process of the management of credit to finance investment property (7) controls over inventory and the purchase of inventory, (8) controls over the revenues from sales and from the provision of services in the cellular telecommunications field, (9) controls over the accounting with a main supplier in the cellular telecommunications field (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, 2018.

We have also audited the Company's consolidated financial statements as of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, in accordance with generally accepted auditing standards in Israel and our report, dated March 28, 2019, 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, 2018 and 2017 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, 2018. 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 6.6% and approximately 11% of the total consolidated assets as of December 31, 2018 and 2017, respectively, and whose revenues constitute approximately 1.4%, approximately 6% and approximately 6% of the total consolidated revenues for the years ended December 31, 2018, 2017 and 2016, respectively. Furthermore, we did not audit the financial statements of certain companies accounted for at equity, the investments in which amounted to approximately US\$ 83,430 thousand and approximately US\$ 86,849 thousand as of December 31, 2018 and 2017, respectively and the Company's shares of their profits amounted to approximately US\$ 5,469 thousand, approximately US\$ 3,061 thousand and approximately US\$ 2,902 thousand for the years ended December 31, 2018, 2017 and 2016, 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, 2018 (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, 2018 and 2017, and the results of their operations, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, 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, 2018, 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, 2019, included an unqualified opinion on the effective maintenance of those components.

KOST FORER GABBAY & KASIERER
Certified Public Accountants

March 28, 2019

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

	December 31	
	2018	2017
Current assets		
Cash and cash equivalents	211,438	197,571
Short-term investments	68,451	108,991
Trade receivables	368,562	366,606
Other receivables	368,595	310,082
Inventory, inventory of real estate and rights in real estate	280,667	270,574
Assets held for sale	<u>75,847</u>	<u>26,167</u>
	<u>1,373,560</u>	<u>1,279,991</u>
Non-current assets		
Long-term receivables	11,471	28,820
Receivables for concession arrangement for the provision of services	23,633	24,288
Investments in entities accounted for at equity	267,315	293,275
Long-term inventory of real estate	17,879	17,603
Income-generating assets	92,996	152,343
Fixed Assets	130,534	139,143
Goodwill and other intangible assets	559,260	552,293
Deferred taxes	<u>12,791</u>	<u>9,374</u>
	<u>1,115,879</u>	<u>1,217,139</u>
	<u>2,489,439</u>	<u>2,497,130</u>

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

March 28, 2019

Date of the approval of the financial statements

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

	December 31	
	2018	2017
Current Liabilities		
Credit from banks and others	151,160	79,143
Bonds - current maturities	73,781	66,128
Suppliers and providers of services	463,532	485,546
Other payables	387,011	378,791
Liabilities in respect of assets held for sale	12,063	-
	<u>1,087,547</u>	<u>1,009,608</u>
Non-Current Liabilities		
Liabilities to banks, financial institutions and others	153,691	178,136
Bonds	324,623	339,081
Other liabilities	285,568	326,463
Employee benefit liabilities, net	14,170	15,242
Deferred taxes	50,934	52,278
	<u>828,986</u>	<u>911,200</u>
Equity		
Equity attributable to shareholders in the company	312,338	313,896
Non-controlling interests	260,568	262,426
	<u>572,906</u>	<u>576,322</u>
Total equity	<u>2,489,439</u>	<u>2,497,130</u>

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

E. Vessely
Chief Financial Officer

D. 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		
	2018	2017	2016
Continuing operations			
Revenues, net	2,386,691	2,385,397	2,012,617
Adjustment of the fair value and the results of the disposal of income-generating assets, net	569	3,329	6,982
Group's share of the profits of entities accounted for at equity, net	4,382	10,004	18,876
Other income	6,916	8,784	103,033
Total	2,398,558	2,407,514	2,141,508
Cost of producing revenues	(2,060,444)	(2,054,315)	(1,747,482)
Selling and marketing expenses	(144,744)	(141,082)	(122,770)
Administrative and general expenses	(76,993)	(74,213)	(71,235)
Other expenses	(10,407)	(818)	(4,335)
Financial income	14,146	15,090	8,790
Financing expenses	(47,072)	(48,726)	(38,928)
Total	(2,325,514)	(2,304,064)	(1,975,960)
Income before taxes on income	73,044	103,450	165,548
Taxes on income	(15,546)	(23,742)	(26,541)
Income from continuing operations	57,498	79,708	139,007
Operating income (loss) from discontinued operations	(9,846)	3,581	(1,860)
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	-	(14,703)	-
Net income	47,652	68,586	137,147
Attributable to:			
Shareholders in the company	17,174	31,621	103,821
Non-controlling interests	30,478	36,965	33,326
	47,652	68,586	137,147
Earnings (loss) per share - attributable to the Equity holders of the Company:			
Basic - Earnings (loss)			
From continuing operations	0.82	1.41	3.79
From discontinued operations	(0.19)	(0.26)	(0.03)
	0.63	1.15	3.76
Fully diluted - Earnings (loss)			
From continuing operations	0.80	1.33	3.77
From discontinued operations	(0.19)	(0.26)	(0.03)
	0.61	1.07	3.74

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		
	2018	2017	2016
Net income	47,652	68,586	137,147
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	(2,386)	(1,731)	-
Gain (loss) from the re-measurement of defined benefit plans, net	1,150	(478)	(48)
	<u>(1,236)</u>	<u>(2,209)</u>	<u>(48)</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	9,669	(12,886)	(13,233)
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	-	14,703	-
Gain (loss) on hedging transactions, net	489	651	(1,113)
	<u>10,158</u>	<u>2,468</u>	<u>(14,346)</u>
Total other comprehensive income (loss)	<u>8,922</u>	<u>259</u>	<u>(14,394)</u>
Total comprehensive income	<u><u>56,574</u></u>	<u><u>68,845</u></u>	<u><u>122,753</u></u>
Comprehensive income attributable to:			
Shareholders in the company	22,844	32,152	94,669
Non-controlling interests	33,730	36,693	28,084
	<u><u>56,574</u></u>	<u><u>68,845</u></u>	<u><u>122,753</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, 2018	30,415	14,722	(49,255)	439,931	433	(50,062)	2,835	(1,051)	(91,579)	8,452	9,055	313,896	262,426	576,322	
Changes following the initial implementation of IFRS 9	-	-	-	(696)	-	-	-	-	-	-	-	(696)	(626)	(1,322)	
Balance of January 1, 2018 following the initial implementation of IFRS 9	30,415	14,722	(49,255)	439,235	433	(50,062)	2,835	(1,051)	(91,579)	8,452	9,055	313,200	261,800	575,000	
Net profit	-	-	-	17,174	-	-	-	-	-	-	-	17,174	30,478	47,652	
Other comprehensive income (loss):															
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	6,314	-	-	6,314	3,355	9,669	
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(1,525)	-	-	-	-	-	(1,525)	(861)	(2,386)	
Gain on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	624	-	-	-	624	526	1,150	
Gain on hedging transactions	-	-	-	-	-	-	257	-	-	-	-	257	232	489	
Total other comprehensive income	-	-	-	-	-	(1,525)	257	624	6,314	-	-	5,670	3,252	8,922	
Total comprehensive income	-	-	-	17,174	-	(1,525)	257	624	6,314	-	-	22,844	33,730	56,574	
Cost of share-based payment	-	-	-	-	-	-	-	-	-	182	-	182	1,764	1,946	
Dividend to shareholders in the company	-	-	-	(8,005)	-	-	-	-	-	-	-	(8,005)	-	(8,005)	
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(23,069)	(23,069)	
Acquisition of treasury shares in the company and in subsidiary companies	-	-	(4,734)	(9,512)	-	-	-	-	-	-	-	(14,246)	(8,468)	(22,714)	
Disposal of income generating asset that was owner occupied in the past	-	-	-	9,055	-	-	-	-	-	-	(9,055)	-	-	-	
Issuance of capital/purchase and sale of shares in a consolidated companies	-	-	-	(1,677)	-	-	-	18	21	-	-	(1,638)	(5,189)	(6,827)	
Exercise of option warrants	-	1,017	-	-	-	-	-	-	-	(1,016)	-	1	-	1	
As of December 31, 2018	30,415	15,739	(59,989)	446,270	433	(51,587)	3,092	(409)	(85,244)	7,618	-	312,338	260,568	572,906	

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, 2017	30,415	14,719	(49,255)	408,332	128	(49,009)	2,489	(896)	(93,680)	8,113	9,055	280,411	227,380	507,791
Net profit	-	-	-	31,621	-	-	-	-	-	-	-	31,621	36,965	68,586
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(6,550)	-	-	(6,550)	(6,336)	(12,886)
Reclassification from the translation differences reserve in connection with operations that have been disposed of in Canada	-	-	-	-	-	-	-	-	8,053	-	-	8,053	6,650	14,703
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(257)	-	-	-	(257)	(221)	(478)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(1,053)	-	-	-	-	-	(1,053)	(678)	(1,731)
Gain on hedging transactions	-	-	-	-	-	-	338	-	-	-	-	338	313	651
Total other comprehensive income	-	-	-	-	-	(1,053)	338	(257)	1,503	-	-	531	(272)	259
Total comprehensive income (loss)	-	-	-	31,621	-	(1,053)	338	(257)	1,503	-	-	32,152	36,693	68,845
Cost of share-based payment	-	-	-	-	-	-	-	-	-	339	-	339	4,386	4,725
Dividend to shareholders in the company	-	-	-	(6,670)	-	-	-	-	-	-	-	(6,670)	-	(6,670)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(21,363)	(21,363)
Issuance of capital /sale of shares in a consolidated company to non-controlling interests	-	-	-	8,341	-	-	8	102	598	-	-	9,049	10,458	19,507
Initial consolidation of companies	-	-	-	-	-	-	-	-	-	-	-	-	4,073	4,073
Acquisition of non-controlling interests	-	-	-	19	-	-	-	-	-	-	-	19	786	805
Acquisition of treasury shares in subsidiary companies	-	-	-	(1,712)	-	-	-	-	-	-	-	(1,712)	(1,406)	(3,118)
Exercise of option warrants	-	3	-	-	-	-	-	-	-	-	-	3	79	82
Transaction with controlling interests	-	-	-	-	305	-	-	-	-	-	-	305	249	554
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,091	1,091
As of December 31, 2017	30,415	14,722	(49,255)	439,931	433	(50,062)	2,835	(1,051)	(91,579)	8,452	9,055	313,896	262,426	576,322

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	30,415	14,719	(49,255)	309,540	128	(49,009)	3,081	(865)	(85,151)	7,619	9,055	190,277	207,100	397,377
Net profit	-	-	-	103,821	-	-	-	-	-	-	-	103,821	33,326	137,147
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(8,529)	-	-	(8,529)	(4,704)	(13,233)
Gain on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(31)	-	-	-	(31)	(17)	(48)
Loss on hedging transactions	-	-	-	-	-	-	(592)	-	-	-	-	(592)	(521)	(1,113)
Total other comprehensive loss	-	-	-	-	-	-	(592)	(31)	(8,529)	-	-	(9,152)	(5,242)	(14,394)
Total comprehensive income (loss)	-	-	-	103,821	-	-	(592)	(31)	(8,529)	-	-	94,669	28,084	122,753
Cost of share-based payment	-	-	-	-	-	-	-	-	-	494	-	494	2,800	3,294
Dividend to shareholders in the company	-	-	-	(5,445)	-	-	-	-	-	-	-	(5,445)	-	(5,445)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(20,780)	(20,780)
Purchase of non-controlling interests	-	-	-	416	-	-	-	-	-	-	-	416	(3,594)	(3,178)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	13,770	13,770
As of December 31, 2016	30,415	14,719	(49,255)	408,332	128	(49,009)	2,489	(896)	(93,680)	8,113	9,055	280,411	227,380	507,791

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		
	2018	2017	2016
Cash flows from operating activities:			
Net income	47,652	68,586	137,147
Adjustments required in order to present the cash flows from operating activities (Appendix A')	36,456	71,245	(78,640)
Net cash generated by operating activities (before acquisition of and investment in land)	84,108	139,831	58,507
Acquisition of and investment in land *)	(31,173)	(21,866)	-
Net cash generated by operating activities *)	52,935	117,965	58,507
Cash flows from investment activities:			
Acquisition of fixed assets and intangible assets	(39,621)	(46,004)	(31,908)
Capitalization of customer acquisition costs	(4,127)	(4,029)	-
Acquisition and construction of income generating assets	(4,430)	(33,865)	(7,084)
Newly consolidated subsidiaries and activities (Appendix B')	634	(97,648)	(10,916)
Investment in shares of affiliated and other companies	(71,843)	(47,626)	(59,005)
Consideration from (purchase of) short-term investments, net	38,432	(44,023)	(25,150)
Consideration from the disposal of fixed and income-generating assets and investments	64,976	77,260	418,318
Net consideration from the sale of operation	13,338	27,061	-
Decrease (increase) in long term receivables, net	(887)	(1,466)	137
Net cash generated (absorbed) by investment activities *)	(3,528)	(170,340)	284,392
Cash flows from financing activities:			
Dividend paid to shareholders in the company	(8,005)	(6,670)	(5,445)
Dividend paid to non-controlling interests	(25,226)	(27,794)	(10,313)
Issuance of bonds	57,891	62,426	97,232
Sale of shares in a consolidated company to non-controlling interests	-	19,507	-
Repayment of long-term liabilities	(132,001)	(153,388)	(356,489)
Receipt of long-term liabilities	88,908	128,690	20,092
Short-term bank credit, net	11,301	(35,675)	(29,195)
Exercise of option warrants and the purchase of shares from non-controlling interests	(6,978)	1,173	13,770
Purchase of treasury shares in the Company and in consolidated companies	(22,714)	(3,118)	(3,178)
Net cash absorbed by financing activities *)	(36,824)	(14,849)	(273,526)
Translation differences in respect of cash and cash equivalent balances	1,284	(805)	(9,061)
Increase (decrease) in cash and cash equivalents	13,867	(68,029)	60,312
Balance of cash and cash equivalents at the beginning of the year	197,571	265,600	205,288
Balance of cash and cash equivalents at the end of the year	211,438	197,571	265,600

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

	For the year ended December 31		
	2018	2017	2016
Income and expenses not involving cash flows: *)			
The Group's share of the profits of companies accounted for at equity, net	(4,382)	(10,004)	(18,876)
Dividends and interest received from companies accounted for at equity	13,439	25,519	16,356
Success fee in respect of increase in the value of housing complexes (Promote)	(18,070)	(6,449)	(6,358)
Adjustments of the fair value and the results of the disposal of income-generating assets, net	5,851	3,449	(6,982)
Reclassification from the translation differences reserve in connection with operation that have been disposed of in Canada	-	14,703	-
Change in the fair value of a financial asset through profit and loss	(6,420)	(6,445)	-
Depreciation and amortization	47,018	39,687	27,262
Amortization of customer acquisition expenses	5,981	4,650	-
Impairment in value of intangible assets less commitment to sellers, net	6,786	6,697	-
Deferred taxes, net	(1,096)	1,312	(22,791)
Reclassification from the translation differences reserve in connection with joint venture that have been disposed of	(1,217)	-	-
Change in employee benefit liabilities	1,474	(2,007)	394
Capital gain on the sale of fixed assets and other investments	(2,563)	(6,104)	(100,531)
Gain on the disposal of discontinued operation	-	(19,450)	-
Gain as a result of an increase to control and initial consolidation	-	-	(2,031)
Revaluation of long-term receivables and liabilities, net	7,191	6,894	(3,781)
Increase in value of short-term investments	760	(3,125)	(2,389)
Cost of share-based payments	1,946	4,725	3,294
Other expenses, net	5,076	-	-
Changes in asset and liability items:			
Decrease (increase) in inventory and inventory of real estate (before acquisition of and investment in land)	21,843	13,690	25,793
Decrease (increase) in trade receivables	2,987	(14,177)	(25,738)
Increase in other accounts receivable	(29,368)	(14,650)	(14,958)
Increase (decrease) in suppliers and providers of services	(35,971)	65,679	21,592
Increase (decrease) in other accounts payable	15,191	(33,349)	31,104
	<u>36,456</u>	<u>71,245</u>	<u>(78,640)</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		
	2018	2017	2016
Working capital, net (except cash)	8	40,391	4,371
Restricted cash	-	(10,912)	-
Fixed assets	(37)	(53,702)	(279)
Investment in entities accounted for at equity	-	-	1,990
Intangible assets	(3,643)	(83,229)	(21,932)
Goodwill	(4,282)	(290,328)	(5,653)
Other non-current assets	-	(759)	-
Deferred taxes	979	2,094	4,632
Loans from banks and others	-	63,500	-
Non-current liabilities	191	194,130	284
Payables for conditional consideration	-	6,593	-
Liability for put option and future dividends for non-controlling interests	4,530	30,501	3,640
Non-controlling interests	-	4,073	-
Gain as a result of an increase to control and initial consolidation	-	-	2,031
Income receivable	2,888	-	-
	<u>634</u>	<u>(97,648)</u>	<u>(10,916)</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		
	2018	2017	2016
Cash paid during the year for:			
Interest	<u>36,664</u>	<u>42,827</u>	<u>37,343</u>
Income tax	<u>23,388</u>	<u>32,328</u>	<u>40,076</u>
Cash received during the year for:			
Interest	<u>7,187</u>	<u>5,180</u>	<u>4,121</u>
Income tax	<u>3,981</u>	<u>791</u>	<u>2,517</u>

Appendix D' - Significant activities not involving cash flows

	For the year ended December 31		
	2018	2017	2016
Acquisition of fixed assets, investment property and intangible assets	<u>23,834</u>	<u>25,757</u>	<u>2,432</u>
Dividend payable to non-controlling interests	<u>-</u>	<u>2,158</u>	<u>10,467</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.

- Electra Real Estate** - Operates 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 a subsidiary company and by funds that invest in housing complexes in the United States, 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, 2018 (NIS 3.748 = 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.