

ELCO LIMITED

Interim Consolidated Financial Statements

As of June 30, 2017

Convenience Translation into U.S. Dollars

(Unaudited)

ELCO LIMITED

Contents

<u>Review of Interim Statements</u>	3
 <u>Financial Statements as of June 30, 2017 (Unaudited)</u>	
Consolidated Statements of Financial Position	4 – 5
Consolidated Statements of Profit or Loss	6
Consolidated Statements of Comprehensive Income	7
Consolidated statements of Changes in Equity	8 – 12
Consolidated Statements of Cash Flows	13 – 16
Notes to the Consolidated Financial Statements	17

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, 2017, 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 12% of the total consolidated assets as of June 30, 2017, and whose revenues constitute approximately 7% and approximately 6% of the total consolidated revenues for the periods of six and 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\$ 94,686 thousand as of June 30, 2017 and the Group's share of their profits amounted to approximately US\$ 5,339 thousand and approximately US\$ 2,021 in the periods of six and 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 23, 2017

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

	June 30		December 31
	2017	2016	2016
	Unaudited		Audited
Current assets			
Cash and cash equivalents	117,591	183,616	284,745
Short-term investments	148,828	36,320	55,329
Trade receivables	382,384	369,175	340,932
Other accounts receivables	369,125	278,953	281,647
Inventory, inventory of real estate and residential apartments	306,080	278,577	250,605
Assets held for sale	16,933	2,488	56,789
	<u>1,340,941</u>	<u>1,149,129</u>	<u>1,270,047</u>
Non-current assets			
Long-term receivables	40,348	26,660	25,404
Receivables for concession arrangement for the provision of services	27,430	29,659	28,473
Investment in entities accounted for at equity	349,155	342,500	348,164
Long-term inventory of real estate	19,124	18,017	16,743
Income generating assets	161,013	143,682	102,297
Fixed assets	125,206	93,312	95,390
Goodwill and other intangible assets	559,574	215,715	221,808
Deferred tax assets	7,433	3,494	1,076
	<u>1,289,283</u>	<u>873,039</u>	<u>839,355</u>
	<u>2,630,224</u>	<u>2,022,168</u>	<u>2,109,402</u>

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

August 23, 2017
Date of approval of financial statements

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

	June 30		December 31
	2017	2016	2016
	Unaudited		Audited
Current Liabilities			
Credit from banking institutions and others	103,559	72,019	74,545
Bonds - current maturities	67,554	61,315	67,437
Suppliers and providers of services	478,776	449,298	436,392
Other payables	436,479	309,560	387,116
Liabilities in respect of assets held for sale	1,215	11,166	24,140
	<u>1,087,583</u>	<u>903,358</u>	<u>989,630</u>
Long-Term Liabilities			
Liabilities to banks and financial institutions	240,637	124,034	65,671
Bonds	333,387	345,127	367,075
Other liabilities	306,834	71,077	81,026
Employee benefit liabilities	16,003	15,532	15,802
Deferred taxes	50,447	50,267	41,448
	<u>947,308</u>	<u>606,037</u>	<u>571,022</u>
Equity			
Equity attributable to equity holders of the Company	329,311	282,961	302,915
Non-controlling interests	266,022	229,812	245,835
Total equity	<u>595,333</u>	<u>512,773</u>	<u>548,750</u>
	<u>2,630,224</u>	<u>2,022,168</u>	<u>2,109,402</u>

E. Vessely
Chief Financial Officer

M. Salkind
Joint General Manager

M. Fridman
Chairman of the Board of
Directors

ELCO LIMITED

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

	Six months ended June 30		Three months ended June 30		Year ended December 31
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
Revenues, net	1,216,044	1,058,805	649,506	556,305	2,163,112
Adjustment of the fair value and the results of the disposal of income-generating assets, net	(1,794)	504	(623)	504	7,485
Group's share of the profits of companies accounted for at equity, net	6,195	14,367	4,546	5,694	21,064
Other income	3,128	85,440	193	657	110,459
Total	1,223,573	1,159,116	653,622	563,160	2,302,120
Cost of producing revenues	(1,050,813)	(923,711)	(553,638)	(480,649)	(1,881,303)
Selling and marketing expenses	(69,714)	(64,253)	(37,937)	(34,658)	(131,620)
Administrative and general expenses	(39,310)	(38,062)	(20,657)	(17,735)	(76,777)
Other expenses	(1,280)	(80)	(427)	(68)	(4,647)
Financing income	8,025	3,698	4,670	2,009	9,424
Change in the fair value of a financial asset through profit and loss	6,910	-	6,910	-	-
Financing expenses	(26,398)	(26,073)	(17,267)	(16,935)	(41,734)
Total	(1,172,580)	(1,048,481)	(618,346)	(548,036)	(2,126,657)
Income before taxes on income	50,993	110,635	35,276	15,124	175,463
Taxes on income	(16,306)	(13,684)	(10,527)	(7,641)	(28,454)
Income from continuing operations	34,687	96,951	24,749	7,483	147,009
Operating income (loss) from discontinued operations	17,668	3,296	(2,713)	2,933	851
Net income	52,355	100,247	22,036	10,416	147,860
Attributable to:					
Equity holders in the Company	24,345	81,628	9,971	1,007	111,740
Non-controlling interest	28,010	18,619	12,065	9,409	36,120
	52,355	100,247	22,036	10,416	147,860
Earnings per share - attributable to the Equity holders of the Company:					
Basic - Earnings					
From continuing operations	0.54	2.89	0.42	(0.03)	4.02
From discontinued operations	0.34	0.07	(0.06)	0.06	0.03
	0.88	2.96	0.36	0.03	4.05
Fully diluted - Earnings					
From continuing operations	0.48	2.88	0.39	(0.04)	4.00
From discontinued operations	0.34	0.07	(0.06)	0.06	0.03
	0.82	2.95	0.33	0.02	4.03

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
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
Net income	52,355	100,247	22,036	10,416	147,860
Other comprehensive income (loss) (after tax effects):					
Amounts that will never be reclassified to profit or loss:					
Loss from the re-measurement of defined benefit plans	-	(4)	-	-	(51)
Amounts that will be classified or reclassified to the profit or loss, when specific conditions are met:					
Adjustments deriving from the translation of the financial statements of foreign operations	(17,458)	(7,230)	(8,338)	(267)	(14,187)
Gain (loss) on hedging transactions	(1,111)	428	65	102	(1,194)
	(18,569)	(6,802)	(8,273)	(165)	(15,381)
Total other comprehensive loss	(18,569)	(6,806)	(8,273)	(165)	(15,432)
Total comprehensive income (loss)	33,786	93,441	13,763	10,251	132,428
Comprehensive income (loss) attributable to:					
Equity holders in the company	14,044	76,278	6,167	2,072	101,928
Non-controlling interests	19,742	17,163	7,596	8,179	30,500
	33,786	93,441	13,763	10,251	132,428

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, 2017	32,608	15,780	(52,806)	440,057	138	(52,541)	2,668	(961)	(100,433)	8,697	9,708	302,915	245,835	548,750
Net income	-	-	-	24,345	-	-	-	-	-	-	-	24,345	28,010	52,355
Other comprehensive loss:														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(9,710)	-	-	(9,710)	(7,748)	(17,458)
Loss on hedging transactions	-	-	-	-	-	-	(591)	-	-	-	-	(591)	(520)	(1,111)
Total other comprehensive loss	-	-	-	-	-	-	(591)	-	(9,710)	-	-	(10,301)	(8,268)	(18,569)
Total comprehensive income (loss)	-	-	-	24,345	-	-	(591)	-	(9,710)	-	-	14,044	19,742	37,786
Cost of share-based payment	-	-	-	-	-	-	-	-	-	182	-	182	2,755	2,937
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(13,214)	(13,214)
Sale of shares in a consolidated company to non-controlling interests	-	-	-	11,915	-	-	-	98	137	-	-	12,150	8,763	20,913
Initial consolidation of companies	-	-	-	-	-	-	-	-	-	-	-	-	189	189
Acquisition of non-controlling interests	-	-	-	17	-	-	-	-	-	-	-	17	342	359
Exercise of option warrants	-	3	-	-	-	-	-	-	-	-	-	3	-	3
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,610	1,610
Balance as of June 30, 2017	32,608	15,783	(52,806)	476,334	138	(52,541)	2,077	(863)	(110,006)	8,879	9,708	329,311	266,022	595,333

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 January 1, 2016 (audited)	32,608	15,780	(52,806)	333,708	138	(52,541)	3,303	(928)	(91,289)	8,168	9,708	205,849	223,702	429,551
Net income	-	-	-	81,628	-	-	-	-	-	-	-	81,628	18,619	100,247
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(5,576)	-	-	(5,576)	(1,654)	(7,230)
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(2)	-	-	-	(2)	(2)	(4)
Gain on hedging transactions	-	-	-	-	-	-	228	-	-	-	-	228	200	428
Total other comprehensive income (loss)	-	-	-	-	-	-	228	(2)	(5,576)	-	-	(5,350)	(1,456)	(6,806)
Total comprehensive income (loss)	-	-	-	81,628	-	-	228	(2)	(5,576)	-	-	76,278	17,163	93,441
Cost of share-based payment	-	-	-	-	-	-	-	-	-	262	-	262	1,081	1,343
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(10,680)	(10,680)
Acquisition non-controlling interests	-	-	-	572	-	-	-	-	-	-	-	572	(2,789)	(2,217)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,335	1,335
Balance as of June 30, 2016	32,608	15,780	(52,806)	415,908	138	(52,541)	3,531	(930)	(96,865)	8,430	9,708	282,961	229,812	512,773

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	32,608	15,780	(52,806)	466,362	138	(52,541)	2,043	(863)	(106,168)	8,788	9,708	323,049	255,745	578,794
Net income	-	-	-	9,971	-	-	-	-	-	-	-	9,971	12,065	22,036
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(3,838)	-	-	(3,838)	(4,500)	(8,338)
Gain on hedging transactions	-	-	-	-	-	-	34	-	-	-	-	34	31	65
Total other comprehensive loss	-	-	-	-	-	-	34	-	(3,838)	-	-	(3,804)	(4,469)	(8,273)
Total comprehensive income (loss)	-	-	-	9,971	-	-	34	-	(3,838)	-	-	6,167	7,596	13,763
Cost of share-based payment	-	-	-	-	-	-	-	-	-	91	-	91	1,760	1,851
Initial consolidation of companies	-	-	-	-	-	-	-	-	-	-	-	-	422	422
Acquisition of non-controlling interests	-	-	-	1	-	-	-	-	-	-	-	1	58	59
Exercise of option warrants	-	3	-	-	-	-	-	-	-	-	-	3	-	3
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	441	441
Balance as of June 30, 2017	32,608	15,783	(52,806)	476,334	138	(52,541)	2,077	(863)	(110,006)	8,879	9,708	329,311	266,022	595,333

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, 2016	32,608	15,780	(52,806)	414,901	138	(52,541)	3,477	(930)	(97,876)	8,298	9,708	280,757	220,805	501,562
Net income	-	-	-	1,007	-	-	-	-	-	-	-	1,007	9,409	10,416
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	1,011	-	-	1,011	(1,278)	(267)
Gain on hedging transactions	-	-	-	-	-	-	54	-	-	-	-	54	48	102
Total other comprehensive income (loss)	-	-	-	-	-	-	54	-	1,011	-	-	1,065	(1,230)	165
Total comprehensive income (loss)	-	-	-	1,007	-	-	54	-	1,011	-	-	2,072	8,179	10,251
Cost of share-based payment	-	-	-	-	-	-	-	-	-	132	-	132	558	690
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(114)	(114)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	384	384
Balance as of June 30, 2016	32,608	15,780	(52,806)	415,908	138	(52,541)	3,531	(930)	(96,865)	8,430	9,708	282,961	229,812	512,773

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

ELCO LIMITED

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

Attributable to equity holders of the company

	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total	Non-controlling interests	Total equity
Balance as of January 1, 2016	32,608	15,780	(52,806)	333,708	138	(52,541)	3,303	(928)	(91,289)	8,168	9,708	205,849	223,702	429,551
Net profit	-	-	-	111,740	-	-	-	-	-	-	-	111,740	36,120	147,860
Other comprehensive loss:														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(9,144)	-	-	(9,144)	(5,043)	(14,187)
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(33)	-	-	-	(33)	(18)	(51)
Loss on hedging transactions	-	-	-	-	-	-	(635)	-	-	-	-	(635)	(559)	(1,194)
Total other comprehensive loss	-	-	-	-	-	-	(635)	(33)	(9,144)	-	-	(9,812)	(5,620)	(15,432)
Total comprehensive income (loss)	-	-	-	111,740	-	-	(635)	(33)	(9,144)	-	-	101,928	30,500	132,428
Cost of share-based payment	-	-	-	-	-	-	-	-	-	529	-	529	3,002	3,531
Dividend to shareholders in the company	-	-	-	(5,837)	-	-	-	-	-	-	-	(5,837)	-	(5,837)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(22,278)	(22,278)
Acquisition of non-controlling interests	-	-	-	446	-	-	-	-	-	-	-	446	(3,853)	(3,407)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	14,762	14,762
Balance as of December 31, 2016	32,608	15,780	(52,806)	440,057	138	(52,541)	2,668	(961)	(100,433)	8,697	9,708	302,915	245,835	548,750

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
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
Cash flows from operating activities:					
Net income	52,355	100,247	22,036	10,416	147,860
Adjustments required in order to present the cash flows from operating activities (Appendix A')	(80,400)	(145,984)	(8,234)	(16,247)	(86,749)
Net cash generated (absorbed) by operating activities	<u>(28,045)</u>	<u>(45,737)</u>	<u>13,802</u>	<u>(5,831)</u>	<u>61,111</u>
Cash flows from investment activities:					
Acquisition of fixed assets and intangible assets	(27,597)	(21,341)	(14,399)	(9,777)	(32,595)
Acquisition and construction of income generating assets	(30,977)	(3,020)	(28,820)	(2,056)	(7,594)
Initially consolidated companies and activities (Appendix B)	(45,632)	(589)	(20,796)	2,128	(11,703)
Investment in shares of affiliated and other companies	(65,880)	(33,430)	(26,858)	(13,484)	(63,258)
Purchase of short-term investments, net	(84,193)	(10,770)	58,479	(10,043)	(26,963)
Consideration from the disposal of fixed and income-generating assets and investments	59,975	381,614	40,452	1,065	448,471
Net consideration from the sale of operation	28,298	-	238	-	-
Decrease (increase) in long-term receivables	(1,418)	143	(1,422)	2	147
Net cash generated (absorbed) by investment activities	<u>(167,424)</u>	<u>312,607</u>	<u>6,874</u>	<u>(32,165)</u>	<u>306,505</u>
Cash flows from financing activities:					
Dividend paid to shareholders in the company	-	-	-	-	(5,837)
Dividend to non-controlling interests	(21,527)	(10,680)	(10,624)	(8,824)	(11,056)
Issuance of bonds	-	44,245	-	23,856	104,241
Sale of shares in a consolidated company to non-controlling interests	20,913	-	-	-	-
Repayment of long-term liabilities	(55,066)	(322,501)	(46,076)	(146,254)	(382,186)
Receipt of long-term liabilities	114,906	13,014	102,107	12,308	21,540
Short-term bank credit, net	(31,634)	(19,088)	(98,269)	3,025	(31,299)
Acquisition of non-controlling interests	-	(2,217)	-	-	-
Issuance of shares to non-controlling interests in consolidated companies	1,610	1,335	441	1,195	14,762
Acquisition of treasury shares in the company and in consolidated companies	-	-	-	-	(3,407)
Net cash generated (absorbed) by financing activities	<u>29,202</u>	<u>(295,892)</u>	<u>(52,421)</u>	<u>(114,694)</u>	<u>(293,242)</u>
Translation differences in respect of cash and cash equivalents balances	<u>(887)</u>	<u>(7,448)</u>	<u>210</u>	<u>(5,704)</u>	<u>(9,715)</u>
Increase (decrease) in cash and cash equivalents	<u>(167,154)</u>	<u>(36,470)</u>	<u>(31,535)</u>	<u>(158,394)</u>	<u>64,659</u>
Balance of cash and cash equivalents at the beginning of the period	<u>284,745</u>	<u>220,086</u>	<u>149,126</u>	<u>342,010</u>	<u>220,086</u>
Balance of cash and cash equivalents at the end of the period	<u>117,591</u>	<u>183,616</u>	<u>117,591</u>	<u>183,616</u>	<u>284,745</u>

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

ELCO LIMITED**CONSOLIDATED STATEMENTS OF CASH FLOWS**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)**Appendix A' - Adjustments required in order to present the cash flows from operating activities:**

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
Income and expenses not involving cash flows:					
The Group's share of the profits of companies accounted for at equity, net	(6,195)	(14,367)	(4,546)	(5,694)	(21,064)
Dividends and interest received from companies accounted for at equity	7,407	13,631	6,648	1,096	10,719
Adjustment of fair value and the results of the disposal of income-generating assets, net	2,152	(504)	980	(543)	(7,485)
Change in the fair value of a financial asset through profit and loss	(6,910)	-	(6,910)	-	-
Depreciation and amortization	20,587	12,579	12,703	6,589	29,227
Deferred taxes, net	2,794	(5,007)	836	(7,426)	(24,434)
Increase (decrease) in employee benefit liabilities	(416)	156	95	64	423
Capital gain on the sale of fixed assets and other investments	(3,017)	(83,201)	(133)	(1,094)	(107,778)
Gain on the disposal of discontinued operation	(20,852)	-	-	-	-
Gain as a result of increase to control and initial consolidation	-	(1,957)	-	-	(2,178)
Revaluation of long-term receivable and liabilities, net	2,657	(1,938)	2,052	(1,606)	(4,054)
Increase in the value of short-term investments	(2,133)	(543)	(1,785)	(1,225)	(2,560)
Cost of share-based payment	2,937	1,343	1,851	690	3,531
Changes in asset and liability items:					
Decrease (Increase) in inventory and inventory of real estate	(39,695)	(8,639)	(15,381)	3,154	27,652
Increase in trade receivables	(18,219)	(49,994)	(30,800)	(41,318)	(27,593)
Decrease (increase) in other accounts receivable	(36,677)	(13,831)	2,687	(2,477)	(17,649)
Increase in suppliers and providers of services	31,278	28,811	35,884	24,115	23,148
Increase (decrease) in other accounts payable	(16,098)	(22,523)	(12,415)	9,428	33,346
	<u>(80,400)</u>	<u>(145,984)</u>	<u>(8,234)</u>	<u>(16,247)</u>	<u>(86,749)</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
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
Working capital, net (except cash and cash equivalents)	57,025	2,609	39,578	2,150	4,686
Restricted cash	(11,699)	-	(11,699)	-	-
Fixed assets	(33,317)	(213)	(32,579)	-	(299)
Other non-current assets	(846)	-	-	-	-
Investment in entities accounted for at equity	-	2,133	-	-	2,133
Intangible assets	(85,113)	(9,127)	(43,370)	(494)	(23,512)
Goodwill	(267,424)	(4,573)	(226,742)	-	(6,061)
Deferred taxes	2,941	2,198	(4,210)	39	4,966
Non-current liabilities	289,720	304	257,804	212	304
Non-controlling interests	189	-	422	-	-
Conditional liability	2,892	-	-	-	-
Liability for put option	-	3,902	-	-	3,902
Gain on the entry into consolidation	-	221	-	221	-
Gain as a result of an increase to control	-	1,957	-	-	2,178
	<u>(45,632)</u>	<u>(589)</u>	<u>(20,796)</u>	<u>2,128</u>	<u>(11,703)</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
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
Cash paid in the period for:					
Interest	18,368	27,998	12,213	22,248	40,035
Taxes on income	26,885	6,280	16,593	4,105	42,965
Cash received for:					
Interest	2,058	1,117	853	260	4,418
Taxes on income	385	1,846	337	420	2,698

Appendix D' – Significant activities not involving cash flows

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2017	2016	2017	2016	2016
	Unaudited		Unaudited		Audited
Dividend payable	2,908	-	-	-	11,222
Liabilities to owners of land and acquisition of fixed assets and intangible assets on credit	63,650	2,127	29,407	2,127	18,164

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, 2017 and for the periods of six months and of three months ended on that date (hereinafter - interim 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, 2017 (NIS 3.496 = 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.