

ELECTRA REAL ESTATE LIMITED

Annual Report
Convenience Translation into US Dollars

March 31, 2017

(Unaudited)

**AUDITORS' REPORT TO THE SHAREHOLDERS OF
ELECTRA REAL ESTATE LIMITED**

Introduction

We have reviewed the accompanying financial information of **Electra Real Estate Ltd.** and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated balance sheet as of March 31, 2017, the condensed consolidated statements of profit or loss, of comprehensive income, of changes in equity and of cash flows, for the period of three months ended on that date. The Company's board of directors and management are responsible for the preparation and presentation of financial information for this interim period, in accordance with International Accounting Standard IAS 34, "Interim Financial Reporting" and they are also responsible for the preparation of financial information for the interim period in accordance with Part D' of the Securities Regulations (Periodic and Immediate Reports) 1970. Our responsibility is to express a conclusion on this interim financial information based on our review.

We did not review the condensed financial information for the interim period of certain consolidated companies, whose assets constitute approximately 71% of the total consolidated assets as of March 31, 2017, and whose revenues constitute approximately 88% of the total consolidated revenues for the period of three months ended on that date. Furthermore, we did not review the condensed financial information for the interim period of companies that are accounted for at equity, the investment in which amounted to approximately US\$ 113.7 million as of March 31, 2017 and the Group's share of their losses amounted to approximately US\$ 1.1 million in the period of three months ended on that date. The condensed financial information of those companies for the interim period was reviewed by other auditors, whose review reports have been furnished to us, and our conclusion, insofar as it relates to amounts included for those companies, is based on the review reports of the other auditors.

The scope of the review

We conducted our review in accordance with Review Standard 1 of the Institute of Certified Public Accountants in Israel, "The review of financial information for interim periods performed by the independent auditor of an Entity". A review of financial information for interim periods consists of making inquiries, primarily of the persons who are responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially reduced in scope from an audit conducted in accordance with generally accepted auditing standards in Israel and consequently it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review and the review reports of other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to what is stated in the previous paragraph, based on our review and on the review reports of the other auditors, nothing has come to our attention that causes us to believe that the accompanying interim financial information does not comply, from all material perspectives, with disclosure provisions in accordance with Part D' of the Securities Regulations (Periodic and Immediate Reports) 1970.

Convenience translation of the financial statements

The interim financial statements in US Dollars were translated from the statements in New Israeli Shekels and have been prepared solely for the convenience of the reader (see Note 2 C).

Brightman, Almagor , Zohar & Co.
Certified Public Accountants
Member of Deloitte Touche Tohmatsu Limited

Tel-Aviv, May 21, 2017

Electra Real Estate Ltd.
Consolidated Statements of Financial Position
Convenience Translation into US Dollars (In thousands)

	<u>March 31</u>		<u>December 31</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
	Unaudited		Audited
Assets			
<u>Current assets</u>			
Cash and cash equivalents	8,207	20,682	11,391
Short-term deposits	1,163	1,098	1,668
Investment in a financial asset at fair value through profit or loss	-	-	550
Trade receivables	3,872	3,264	4,981
Current tax assets	662	1,009	615
Other receivables	30,583	10,425	11,421
Inventory of land and offices for sale and residential apartments	15,836	29,115	18,476
Non-current assets held for sale	43,714	-	46,067
Investments in companies accounted for at equity that are held for sale	3,571	2,930	8,596
Total current assets	<u>107,608</u>	<u>68,523</u>	<u>103,765</u>
<u>Non-current assets</u>			
Investment in companies accounted for at equity	143,300	134,889	161,793
Long-term loans and other receivables	11,294	3,339	8,428
Fixed assets	698	694	636
Investments in financial asset at fair value through other comprehensive income	4,261	-	4,511
Investment in a financial asset at fair value through profit or loss	2,508	-	2,530
Income-generating assets and assets under development	64,438	106,658	63,858
Total non-current assets	<u>226,499</u>	<u>245,580</u>	<u>241,756</u>
Total assets	<u><u>334,107</u></u>	<u><u>314,103</u></u>	<u><u>345,521</u></u>

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

Electra Real Estate Ltd.
Consolidated Statements of Financial Position
Convenience Translation into US Dollars (In thousands)

	<u>March 31</u>		<u>December 31</u>
	<u>2017</u>	<u>2016</u>	<u>2016</u>
	Unaudited		Audited
Liabilities and Equity			
<u>Current Liabilities</u>			
Short-term credit (including current maturities of loans and bonds)	41,554	22,491	36,274
Current tax liabilities	8,644	3,368	11,013
Suppliers and providers of services	504	1,660	450
Other payables	7,878	11,995	11,623
Advances from customers – purchasers of apartments and offices	-	885	-
Loans from joint ventures	-	4,632	-
Liabilities in respect of non-current assets held for sale	22,095	-	23,236
Total current liabilities	<u>80,675</u>	<u>45,031</u>	<u>82,596</u>
<u>Non-current Liabilities</u>			
Bonds	78,788	75,903	78,741
Loans from shareholders in investee companies	2,786	3,012	2,923
Other long-term liabilities	3,913	-	3,851
Long-term loans to finance investments in income-generating assets, assets in the development stages and capital investments	46,226	81,442	44,256
Deferred taxes	4,294	10,881	4,084
Total non-current liabilities	<u>136,007</u>	<u>171,238</u>	<u>133,855</u>
<u>Equity</u>			
Regular share capital of par value US\$ 0.00003	2	1	2
Share premium	197,815	170,165	197,815
Capital reserves	(146,229)	(136,038)	(137,750)
Retained earnings	58,896	62,139	61,183
Equity attributed to the shareholders	110,484	96,267	121,250
Non-controlling interests	6,941	1,567	7,820
Total equity	<u>117,425</u>	<u>97,834</u>	<u>129,070</u>
Total liabilities and equity	<u>334,107</u>	<u>314,103</u>	<u>345,521</u>

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

<u>May 21, 2017</u>			
Date of approval of the financial statements	E. Vessely Chief Financial Officer	G. Rushinek General Manager	A. Israeli Chairman of the Board of Directors

Electra Real Estate Ltd.
Consolidated Statements of Profit or Loss
Convenience Translation into US Dollars (In thousands)

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	Unaudited		Audited
Revenues from rental and management fees and from the sale of apartments, offices and others	4,905	3,352	24,775
Cost of revenues	4,694	2,147	19,572
Gross income (loss)	211	1,205	5,203
Adjustments of fair value and the results of the disposal of income-generating assets, net	(535)	-	1,671
The Company's share of the results of companies accounted for at equity, net	336	2,786	9,708
Administrative and general expenses	(1,003)	(1,256)	(4,416)
Selling and marketing expenses and others	(101)	-	(1,812)
	(1,303)	1,530	5,151
Operating income (loss)	(1,092)	2,735	10,354
Financing expenses	(1,125)	(1,090)	(6,685)
Financing income	481	407	947
Financing expenses, net	(644)	(683)	(5,738)
Income (loss) before taxes on income	(1,736)	2,052	4,616
Taxes on income	(203)	(241)	(1,271)
Income (loss) for the period from continuing operations	(1,939)	1,811	3,345
Loss for the period from discontinued operation	(452)	(12)	(1,414)
Net income (loss) for the period	(2,391)	1,799	1,931
Attributable to:			
Shareholders of the parent company	(2,287)	1,840	884
Non-controlling interests	(104)	(41)	1,047
Net income (loss) for the period	(2,391)	1,799	1,931
Net earnings (loss) per share attributable to the shareholders in the parent company (*)			
Basic and fully diluted net earnings (loss) from continuing operations – in US\$	(0.03)	0.05	0.05
Basic and fully diluted net earnings (loss) from discontinued operation – in US\$	(0.01)	(0.0003)	(0.03)
Basic and fully diluted net earnings (loss) – in US\$	(0.04)	0.05	0.02
Weighted average number of shares used in the calculation of the net earnings (loss) per share: (1)			
Basic and fully diluted loss– in thousands	56,410	40,413	46,374

(*) Restated.

(1) The weighted average number of shares used in the calculation of the basic and diluted earnings per share has been adjusted retrospectively in respect of the issuance of bonus shares, in all of the reporting periods that are presented.

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

Electra Real Estate Ltd.
Consolidated Statements of Comprehensive Income
Convenience Translation into US Dollars (in thousands)

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Net income loss for the period	<u>(2,391)</u>	<u>1,799</u>	<u>1,931</u>
Other comprehensive loss			
Exchange differences on the translation of foreign operations			
Total other comprehensive loss for the period	<u>(8,109)</u>	<u>(3,235)</u>	<u>(4,882)</u>
Total comprehensive loss for the period	<u><u>(10,500)</u></u>	<u><u>(1,436)</u></u>	<u><u>(2,951)</u></u>
Total comprehensive income (loss) for the period attributable to:			
Shareholders in the parent company	(10,779)	(1,651)	(4,389)
Non-controlling interests	<u>279</u>	<u>215</u>	<u>1,438</u>
	<u><u>(10,500)</u></u>	<u><u>(1,436)</u></u>	<u><u>(2,951)</u></u>

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

Electra Real Estate Ltd.
Consolidated Statements of Changes in Equity
Convenience Translation into US Dollars (in thousands)

For the period ended on March 31, 2017 (unaudited)

	Share capital	Share premium	Reserve for capital instruments through other comprehensive income	Capital reserve on share- based payment	Capital reserve on exchange differences on the translation of foreign operations	Shares in the Company that are held by the Company	Retained earnings	Total attributable to shareholders in the parent company	Non- controlling interests	Total
Balance as of January 1, 2017	2	197,815	(57,474)	194	(77,717)	(2,753)	61,183	121,250	7,820	129,070
Loss for the period	-	-	-	-	-	-	(2,287)	(2,287)	(104)	(2,391)
Exchange differences on the translation of foreign operations	-	-	-	-	(8,492)	-	-	(8,492)	383	(8,109)
Total comprehensive income (loss) for the period	-	-	-	-	(8,492)	-	(2,287)	(10,779)	279	(10,500)
Cost of share-based payment	-	-	-	13	-	-	-	13	-	13
The minority interests' share of a subsidiary company holding housing complexes in the United States	-	-	-	-	-	-	-	-	1,125	1,125
Payment of dividend in a consolidated company to minority interests	-	-	-	-	-	-	-	-	(2,283)	(2,283)
Total equity as of March 31, 2017	2	197,815	(57,474)	207	(86,209)	(2,753)	58,896	110,484	6,941	117,425

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

Electra Real Estate Ltd.
Consolidated Statements of Changes in Equity
Convenience Translation into US Dollars (in thousands)

For the period ended on March 31, 2016 (unaudited)

	<u>Share capital</u>	<u>Share premium</u>	<u>Capital reserve on the revaluation of investments in rights in hotels</u>	<u>Capital reserve on share-based payment</u>	<u>Capital reserve on exchange differences on the translation of foreign operations</u>	<u>Shares in the Company that are held by the Company</u>	<u>Retained earnings</u>	<u>Total attributable to shareholders in the parent company</u>	<u>Non-controlling interests</u>	<u>Total</u>
Balance as of January 1, 2016	1	170,165	(57,474)	100	(72,444)	(2,753)	60,299	97,894	572	98,466
Net income (loss) for the year	-	-	-	-	-	-	1,840	1,840	(41)	1,799
Exchange differences on the translation of foreign operations	-	-	-	-	(3,491)	-	-	(3,491)	256	(3,235)
Total comprehensive loss for the year	-	-	-	-	(3,491)	-	1,840	(1,651)	215	(1,436)
Cost of share-based payment	-	-	-	24	-	-	-	24	-	24
The minority interests' share of a subsidiary company holding housing complexes in the United States	-	-	-	-	-	-	-	-	780	780
Total equity as of March 31, 2016	<u>1</u>	<u>170,165</u>	<u>(57,474)</u>	<u>124</u>	<u>(75,935)</u>	<u>(2,753)</u>	<u>62,139</u>	<u>96,267</u>	<u>1,567</u>	<u>97,834</u>

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

Electra Real Estate Ltd.
Consolidated Statements of Changes in Equity
Convenience Translation into US Dollars (in thousands)

For the year ended on December 31, 2016 (audited)

	<u>Share capital</u>	<u>Share premium</u>	<u>Reserve for capital instruments through other comprehensive income</u>	<u>Capital reserve on share-based payment</u>	<u>Capital reserve on exchange differences on the translation of foreign operations</u>	<u>Shares in the Company that are held by the Company</u>	<u>Retained earnings</u>	<u>Total attributable to shareholders in the parent company</u>	<u>Non-controlling interests</u>	<u>Total</u>
Balance as of January 1, 2016	1	170,165	(57,474)	100	(72,444)	(2,753)	60,299	97,894	572	98,466
Net income for the year	-	-	-	-	-	-	884	884	1,047	1,931
Exchange differences on the translation of foreign operations	-	-	-	-	(5,273)	-	-	(5,273)	391	(4,882)
Total comprehensive income (loss) for the year	-	-	-	-	(5,273)	-	884	(4,389)	1,438	(2,951)
Cost of share-based payment	-	-	-	94	-	-	-	94	-	94
The minority interests' share of a subsidiary company holding housing complexes in the United States	-	-	-	-	-	-	-	-	3,251	3,251
The initial consolidation of a consolidated company	-	-	-	-	-	-	-	-	2,559	2,559
The issuance of shares in the Company (less issuance expenses)	1	27,650	-	-	-	-	-	27,651	-	27,651
Total equity as of December 31, 2016	2	197,815	(57,474)	194	(77,717)	(2,753)	61,183	121,250	7,820	129,070

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

Electra Real Estate Ltd.
Consolidated Statements of Cash Flows
Convenience Translation into US Dollars (in thousands)

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Cash flows from operating activities:			
Net income (loss) for the period	(2,391)	1,799	1,931
Adjustments required in order to present the cash flows from operating activities (Appendix A')	(1,005)	(1,386)	(993)
Net cash generated (absorbed) by operating activities	(3,396)	413	938
Cash flows from investment activities:			
Consideration on the sale of marketable securities, net	208	-	655
Consideration from the disposal of entities accounted for at equity	19,518	4,462	4,637
Change in short-term and long-term deposits, net	471	1,474	(2,481)
Changes in investments and loans to investee companies and partnerships, net	(23,132)	(11,498)	(30,350)
Initial consolidation of a consolidated company (appendix B)	-	-	(14,917)
Income tax received (paid) on the disposal of income-generating assets, net	(1,228)	468	-
Investment in, acquisition and enhancement of income-generating assets and income-generating assets under construction	(2,077)	(928)	(7,310)
Consideration from the disposal of (investment in) fixed assets, net	(81)	-	-
Consideration from the sale of income-generating assets	318	32,772	32,772
Net cash generated (absorbed) by investment activities	(6,003)	26,750	(16,994)
Cash flows from financing activities:			
Issuance of bonds (less issuance expenses)	-	19,626	42,588
Issuance of shares (less issuance expenses)	-	-	27,651
The minority interests' share of a subsidiary company holding housing complexes in the United States	1,125	-	3,251
Payment of dividend in a consolidated company to minority interests	(2,283)	-	-
Receipt of long-term liabilities	12,320	680	20,733
Repayment of long-term liabilities	(4,382)	(33,129)	(50,980)
Repayment of loans from companies accounted for at equity and non-controlling interests, net	(80)	(18)	(216)
Repayment of bonds	-	(24,812)	(46,033)
Short-term credit from banking entities and others, net	-	(3,738)	(3,737)
Net cash generated (absorbed) by financing activities	6,700	(41,391)	(6,743)
Decrease in cash and cash equivalents	(2,699)	(14,228)	(22,799)
Balance of cash and cash equivalents at the beginning of the period	11,391	34,882	34,882
Translation differences in respect of cash balances in foreign currency	(485)	28	(692)
Balance of cash and cash equivalents at the end of the period	8,207	20,682	11,391

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

Electra Real Estate Ltd.
Consolidated Statements of Cash Flows
Convenience Translation into US Dollars (in thousands)

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	Unaudited		Audited
Appendix A' – Adjustments to present the cash flows from operating activities			
Expenses (income) not involving cash flows:			
The Company's share of the results of affiliated companies, net	(336)	(2,786)	(9,708)
Success fee in respect of an increase in the value of assets (promote)	(1,217)	-	(6,561)
Dividends and interest received from companies accounted for at equity and others	527	4,585	6,729
Adjustments of fair value of loans to companies accounted for at equity	-	-	207
Depreciation and amortization	19	19	76
Adjustments of fair value and the disposal of income- generating assets, net	846	37	(267)
Gain on marketable securities	342	719	(486)
Cost of share-based payment	13	24	94
Change in deferred taxes, net	390	(194)	1,149
Changes in asset and liability items:			
Change in inventory of real estate for sale, residential apartments and long-term inventory of real estate, less advances, net	2,215	1,753	11,045
Change in trade receivables	1,040	382	(1,369)
Change in other receivables	(502)	(633)	1,622
Change in suppliers and providers of services	(712)	(3,864)	(4,687)
Change in other payables	(4,212)	(370)	2,720
Revaluation of long-term payables and receivables, net	582	(1,058)	(1,557)
	(1,005)	(1,386)	(993)

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

Electra Real Estate Ltd.
Consolidated Statements of Cash Flows
Convenience Translation into US Dollars (in thousands)

	Three months ended		Year ended
	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
Appendix B' – Initial consolidation of a consolidated company			
Investment in companies accounted for at equity	-	-	(18,785)
Deferred taxes	-	-	1,309
Non-controlling interests	-	-	2,559
	-	-	(14,917)
Appendix C' – Additional details			
Cash paid in the year for:			
Interest	1,906	2,202	9,418
Taxes paid on income	1,228	-	-
Cash received in the period for:			
Interest	1	9	9
Taxes on income	-	468	480
Appendix D' – Non-cash activity			
Investment in income-generating real estate	766	1,136	747

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

Electra Real Estate Ltd.
Notes to the Consolidated Financial Statements
Convenience Translation into US Dollars (in thousands)

Note 1 - General

- A. Electra Real Estate Ltd. (hereinafter – "The Company") is a public company whose securities are listed for trading on the Tel-Aviv Stock Exchange, which is engaged (both directly and also through investee companies) in the acquisition, rental and disposal of income-generating assets in Israel and abroad and in the initiation and construction of projects in the real estate field in Israel and abroad.
- B. The interim financial statements should be read together with the Company's annual financial statements as of December 31, 2016 and the year ended on that date and the accompanying notes thereto.

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".

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.

- B. The Interim Consolidated Financial Statements have been prepared in accordance with the disclosure requirements in accordance with section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

C. Convenience translation

The attached Financial Statements in US Dollars are a translation of the statements as prepared in New Israeli Shekels ("NIS" or "Shekel") at the rate of exchange of the Shekel to the US Dollar prevailing on March 31, 2017 (NIS 3.632 = US\$ 1).

It should be noted that the New Israeli Shekel amounts, on the basis of which the convenience translation figures were prepared, do not necessarily represent the current cost amounts of the various elements within the financial statements and, also, that it should not be construed from the translation into US Dollar figures that the Israeli currency amounts actually represent, or could be converted into Dollars. These financial statements have been prepared for the convenience of the reader. In the event of any discrepancy between the contents of this translation and the Hebrew original, the Hebrew original prevails.

