ELECTRA LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2017

(UNAUDITED)

(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)

ELECTRA LTD.

INDEX

**THE BOARD OF DIRECTORS OF ELECTRA LTD.
HEREBY PRESENTS THE REPORT ON THE STATE OF THE AFFAIRS
OF THE COMPANY AND ITS CONSOLIDATED COMPANIES ("THE GROUP")
FOR THE PERIOD OF THREE MONTHS ENDED MARCH 31, 2017
("THE REPORTING RERIOD")**

1. Description of the corporation and its business environment

As of the time of this report, the Group operates in Israel and abroad in five principal segments: the construction and infrastructure projects in Israel segment; the construction and infrastructure projects overseas segment; the services and maintenance segment; the development and construction of entrepreneurial real estate segment and the concessions segment.

The Group's activity is carried out through the Company and its investee companies. See the section 2 of the report on the description of the entity's business as at December 31, 2016.

2. Financial position

The following are the main figures that appear in the sections of the statement of financial position (in US$ thousands)

	31.03.2017		31.12.2016		
	Total	%	Total	%	%
Current assets	749,094	62.1	777,964	67.0	(3.7)
Non-current assets	456,960	37.9	382,530	33.0	19.5
Current liabilities	659,499	54.7	632,539	54.5	4.3
Non-current liabilities	309,404	25.6	271,790	23.4	13.8
Equity	237,151	19.7	256,165	22.1	(7.4)
Total of the statement of financial position	1,206,054	100.0	1,160,494	100.0	3.9

The Group's assets in the consolidated statement of financial position at the end of the period amounted to approximately US$ 1,206 million, compared to approximately US$ 1,160 million at the end of 2016. The increase derived primarily from the acquisition of Megason Control and Communications. See Note 5B to the interim consolidated financial statements as of March 31, 2017 for details.

The surplus of the current assets over the current liabilities amounted to approximately US$ 90 million, compared with approximately US$ 145 million at the end of 2016 and the current ratio is 1.14, compared to 1.23 at the end of 2016

3. Equity

As of the reporting date, the equity amounts to approximately US$ 237 million, compared with approximately US$ 256 million as of December 31, 2016. The change in equity in the reporting period derives primarily from the net income for the period in an amount of approximately US$ 9.8 million, less the impact of adjustments deriving from the translation of financial statements of foreign operations in an amount of approximately US$ 0.5 million, a dividend of approximately US$ 10.2 million to the shareholders in the Company and a dividend of approximately US$ 3.2 million to the non-controlling interests and from the acquisition of an affiliated company under the same control in an amount of US$ 14.5 million (see Note 5 G for details). For additional details, see the consolidated statements of changes in equity in the interim consolidated financial statements.

4. Operating results

The following table summarizes the business results by quarter (U.S. Dollars in thousands):

	Q 1-3/17	Q 10-12/16	Q 7-9/16	Q 4-6/16	Q 1-3/16
Revenues from the performance of works and the provision of services	387,124	360,654	355,768	345,364	341,008
Cost of works and services	(359,777)	(331,674)	(332,293)	(319,428)	(320,839)
Gross profit	**27,347**	**28,980**	**23,475**	**25,936**	**20,169**
Administrative and general expenses	(13,028)	(12,705)	(11,535)	(11,182)	(11,227)
Selling and marketing expenses	(1,001)	(1,348)	(877)	(856)	(841)
The Company’s share of profits of entities accounted for at equity, net	3,156	818 (*)	2,514 (*)	2,802 (*)	5,070 (*)
Other income (expenses), net	(190)	(1,278)	9,944	386	5,975
Operating income	**16,284**	**14,467**	**23,521**	**17,086**	**19,146**
Financing expenses, net	(2,306)	(2,503)	(1,423)	(1,269)	(2,634)
Income before taxes on income	**13,978**	**11,964**	**22,098**	**15,817**	**16,512**
Taxes on income	(4,220)	(2,186)	(5,729)	(4,802)	(4,299)
Income from continuing operations	**9,758**	**9,778**	**16,369**	**11,015**	**12,213**
Loss from discontinued operations, net	-	(951)	(3,157)	(20)	(152)
Net income for the period	**9,758**	**8,827**	**13,212**	**10,995**	**12,061**
Attributable to:					
Shareholders in the Company	8,856	7,887	12,904	10,581	11,458
Non-controlling interests	902	940	308	414	603
	9,758	**8,827**	**13,212**	**10,995**	**12,061**

(*) See Note 5G to the interim consolidated financial statements for details regarding a retrospective adjustment.

5. Revenues from the performance of works and the provision of services

The Group's revenues in the reporting period amounted to approximately US$ 387 million, compared with approximately US$ 341 million in the comparative period in the previous year, an increase of approximately 14%. The increase in the revenues in the reporting period relates primarily to the construction and infrastructure projects in Israel segment and the services and maintenance segment (see the additional details that appear in section 11 below).

The Group's revenues in 2016 amounted to US$ 1,403 million.

The revenues from the performance of works and the provision of services do not include additional revenues of US$ 41 million (US$ 68 million in the comparative period in the previous year), in respect of the Group's net share of the revenues of entities, which are accounted for at equity.

6. Gross profit

The gross profit in the reporting period amounted to approximately US$ 27 million, compared with approximately US$ 20 million in the comparative period in the previous year, an increase of approximately 36%.

The gross profit in 2016 amounted to approximately US$ 99 million.

7. The Company's share of the profits of companies accounted for at equity, net

The Company's share of the profits of companies accounted for at equity, net, amounted to US$ 3.2 million in the reporting period, as compared to US$ 5.1 million in the comparative period in the previous year.

The decrease in the profits of entities accounted for at equity derived primarily from the recording of a profit in respect of the termination of a number of projects in the comparative period in the previous year. Furthermore, the Company was affected by the impact of the updating of the value of embedded derivatives, as detailed below:

Within the context of the commitment for the performance of the training camp city project and the Gilboa pumped storage project (hereinafter: "**The projects**"), various entities, which are connected to the projects, have signed on commitment agreements with commissioners of work and various suppliers, some of which are linked to a basket of currencies, indices and interest rates.

As a result of this, and in the light of the provisions of IAS 39, embedded derivatives, which are included in the commitment agreements, which are measured at fair value though profit and loss each period, have been separated. As of the reporting date, the fair value of the embedded derivatives has been assessed by an external appraiser and the Group has recorded a net of tax loss of approximately US$ 0.8 million in respect of them (both in respect of the EPC entities and also in respect of the SPC entities) in the reporting period, as compared with a net of tax profit of approximately US$ 0.6 million in the corresponding period in the previous year.

8. Other income (expenses), net

Other expenses, net amounted to approximately US$ 0.2 million in the reporting period, as compared with other income net of approximately US$ 6 million in the comparative period in the previous year. The decrease in other income derived primarily from a gain of approximately US$ 5.1 million from the sale of the Company’s rights in land in Rishon Le'Zion in the comparative period in the previous year.

Other expenses, net amounted to approximately US$ 15 million in the year 2016.

9. Financing expenses, net

Financing expenses, net amounted to approximately US$ 2.3 million in the reporting period, as compared with approximately US$ 2.6 million in the comparative period in the previous year, an insignificant change. An adjustment in respect of a financial commitment with a demand characteristic and a price adjustment of US$ 1.6 million has been recorded under financing expenses, as compared with an amount of approximately US$ 0.7 million in the comparative period in the previous year.

Financing expenses, net amounted to approximately US$ 7.8 million in the year 2016.

10. Net income

The Group’s net income amounted to approximately US$ 9.8 million in the reporting period, as compared with approximately US$ 7 million, after the elimination of a non-recurring profit on the disposal of the land in Rishon Le'Zion in the comparative period in the previous year and approximately US$ 12.1 million without the elimination of the non-recurring profit in the comparative period in the previous year.

11. Report in respect of business segments

A. Revenues:

	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016
	US$ thousands		
Construction and infrastructure projects in Israel	260,765	237,419	940,480
Construction and infrastructure projects abroad	16,799	6,964	51,079
Services and maintenance	111,403	94,656	405,727
Development & construction of entrepreneurial real estate	4,649	1,795	9,234
Concessions	890	806	4,229
Consolidation adjustments	(7,382)	(632)	(7,955)
Total	387,124	341,008	1,402,794

1. Construction and infrastructure projects in Israel

The revenues turnover in the reporting period amounted to approximately US$ 261 million (approximately 67% of revenues) as compared with US$ 237 million (approximately 70% of revenues) in the comparative period in the previous year, an increase of approximately 10% which derived from an increase in most of the Group's operations in this segment and primarily from an increase in the activities of Electra Infrastructures and Electra Construction.

2. Construction and infrastructure projects abroad

The revenues turnover in the reporting period amounted to approximately US$ 17 million (approximately 4% of revenues) as compared with US$ 7 million (approximately 2% of revenues) in the comparative period in the previous year, an increase of approximately 141%. The increase in the revenues turnover derived primarily from the operations of Electa Poland, which was not included in the comparative period in the previous year.

3. Services and maintenance

The revenues turnover in the reporting period amounted to approximately US$ 111 million (approximately 29% of revenues) as compared with US$ 95 million (approximately 28% of revenues) in the comparative period in the previous year, an increase of approximately 18%, which derived primarily from the initial consolidation of the operations of Electra Smart Technologies, which acquired Megason as well as an increase of most of the Group's operations in this segment.

4. Development & construction of entrepreneurial real estate

The revenues turnover amounted to approximately US$ 5 million in the reporting period (approximately 1% of revenues), as compared with approximately US$ 2 million (approximately 1% of revenues) in the previous year. The increase in revenues derived primarily from the recognition of revenues from the Achziv project for the first time in accordance with the pace of the progress.

5. Concessions

The revenues turnover in the reporting period and in the comparative period in the previous year related primarily to concession operations in the field of waste water treatment facilities and amounted to approximately US$ 0.9 million, in the reporting period, which was similar to the previous year.

B. Segmental operating income:

	For the period of three months ended March 31		For the year ended December 31
	2017	2016	2016
	US$ thousands		
Construction and infrastructure projects in Israel	7,372	7,845	32,630
Construction and infrastructure projects abroad	1,158	507	1,360
Services and maintenance	10,360	8,155	36,534
Development & construction of entrepreneurial real estate	1,383	(*)5,686	(*)7,048
Concessions	(779)	143	10,317
	175	-	456
Total	19,669	22,336	88,345

(*) See Note 5G to the interim consolidated financial statements for details regarding a retrospective adjustment.

1. **Construction and infrastructure projects in Israel**

   The operating income in the reporting period amounted to approximately US$ 7.4 million (approximately 37% of segmental operating income) as compared with approximately US$ 7.8 million (approximately 35% of segmental operating income) in the comparative period in the previous year.

2. **Construction and infrastructure projects abroad**

   The operating income in the reporting period amounted to approximately US$ 1.2 million (approximately 6% of segmental operating income) as compared with approximately US$ 0.6 million (approximately 2% of segmental operating income) in the comparative period in the previous year. The increase derived primarily from the operations of Electra Poland, which were not included in the comparative period in the previous year.

3. **Services and maintenance**

   The operating income in the reporting period amounted to approximately US$ 10.4 million (approximately 53% of segmental operating income) as compared with approximately US$ 8.2 million (approximately 37% of segmental operating income) in the comparative period in the previous year, an increase of approximately 27%, deriving primarily from the initial consolidation of Electra Smart Technologies, which has acquired Megason as well as from the operations of Electra Security, which were not included in the comparative period in the previous year and from an increase in most of the Group's operations in this segment.

4. **Development & construction of entrepreneurial real estate**

   The operating income in the reporting period amounted to approximately US$ 1.4 million (approximately 7% of segmental operating income) as compared with operating income of approximately US$ 5.7 million (approximately 25% of segmental operating income) in the comparative period in the previous year. The decrease derived primarily from the recording of a gain of approximately US$ 5.1 million from the sale of the Company’s rights in land in Rishon Le'Zion in the previous year.

5. **Concessions**

   The operating loss in the reporting period amounted to approximately US$ 0.8 million as compared with operating income of approximately US$ 0.1 million in the comparative period in the previous year.

12. Orders backlog

The Group's backlog of orders as of March 31, 2017 amounted to approximately US$ 2,870 million, compared with approximately US$ 2,692 million at the end of 2016. The backlog as of March 31, 2017 includes the Group's share of entities accounted for at equity, in an amount of approximately US$ 270 million (December 31, 2016 – approximately US$ 292 million).

	March 31, 2017				December 31, 2016			
	Construction and infrastructure projects in Israel segment	Construction and infrastructure projects abroad segment	Services and maintenance segment (*)	Total	Construction and infrastructure projects in Israel segment	Construction and infrastructure projects abroad segment	Services and maintenance segment	Total
	(In US$ millions)							
The distribution of the orders backlog by operating segment								
Without affiliated companies	1,847 (**)	132	621	2,600	1,687 (**)	98	615	2,400
In respect of affiliated companies	81	2	187	270	103	3	186	292
Total	1,928	134	808	2,870	1,790	101	801	2,692
The spreading of the orders backlog without the Company's share of affiliated companies								
For performance in 2017	639	54	277	970				
For performance in 2018 and thereafter	1,209	77	344	1,630				
Total	1,848	131	621	2,600				

(*) This orders backlog is comprised primarily of contracts for commitments, which are generally arranged as service agreements for renewable periods, where the customer has the right for a number of years, of ending it at any stage. In addition, the backlog includes a backlog relating to the operation of a BOT projects for long periods and the operation of waste water treatment facilities, in an amount of approximately US$ 292 million, of which US$ 20 million will be performed in 2017.

(**) The orders backlog includes an amount of US$ 143 million in respect of a project for the planning, construction and maintenance of Teva Pharmaceutical Industries Ltd., in connection with which the Company has received an update from Teva regarding its decision to freeze the project at this stage, while examining whether and how to continue the project.

13. Liquidity and sources of finance

The Group's liquid means (cash and cash equivalents and marketable securities) amounted to approximately US$ 95 million as of March 31, 2017, as compared with approximately US$ 190 million as of December 31, 2016.

The change in the Group's liquid means in the first three months of the year 2017 derived, inter alia, from cash of approximately US$ 28 million absorbed by operating activities as compared with cash of approximately US$ 21 million in the comparative period in the previous year.

The net cash absorbed by investment activities amounted to approximately US$ 44 million in the first three months of the year 2017, by comparison with net cash of approximately US$ 8 million in the comparative period in the previous year, and included, primarily, investments of approximately US$ 14 million in investee companies, the purchase of fixed assets and intangible assets in an amount of approximately US$ 10 million and the acquisition of initially consolidated companies in an amount of NIS 24 million, less net consideration of US$ 3 million from the realization of marketable securities.

The cash absorbed by financing activities amounted to approximately US$ 20 million in the first three months of the year 2017, by comparison with approximately US$ 4 million in the comparative period in the previous year and primarily included the repayment of long term loans, in an amount of approximately US$ 3 million, the net repayment of short-term credit in an amount of US$ 8 million and the payment of a dividend in an amount of US $ 9 million to non controlling interests and shareholders in the Company.

14. Disclosure in respect of the forecast cash flows for the repayment of the group's liabilities

As of the time of this report, there are no warning signs, as defined in Regulation 10 (B) 14 of the Securities Regulations (Periodic and Immediate Reports) – 1970, in existence.

15. Events after the reporting period

A. See Note 5 to the interim consolidated financial statements as of March 31, 2017.

B. In the period from the date of the statement of financial (March 31, 2017) and to a time shortly before the publication of the financial statements (May 15, 2017), changes occurred in the exchange rates of the currencies in which the Company operates as compared with the Shekel.

The following are details of the devaluation (revaluation), as aforesaid, (from March 31, 2017 to May 15, 2017):

Currency	As a %
US Dollar	(0.94)
Euro	1.61
Russian Ruble	(2.30)
Nigerian Naira	(0.83)

Since a significant portion of the Company’s revenue are denoted in foreign currency, the Company is of the opinion that the changes in the exchange rates as of the time of the publication of this report, are expected to affect the Company's results and its statement of financial position (and this also includes the shareholders' equity). Together with this, the impact of the exchange rates on the business results in the second quarter of 2017 will be determined in accordance with the exchange rates that will be in effect during the course of and at the end of the quarter (June 30, 2017).

16. Details regarding exposure to market risks and their management

No change has occurred in the data regarding the entity's policies in respect of the management and control of market risks or in the persons who are responsible in the Company for the management of the Company's market risk from what was detailed in the Company's periodic report for the year 2016.

For details in respect of the risk factors to which the Group is exposed, see section 69 of the description of the entity's business as of December 31, 2016, which was published on March 29, 2017.

17. Self-purchase plan

For details regarding the Company's self-purchase plan, see Section 18 of the Report of the Board of Directors, which was attached to the Company's report for the year 2016.

For details regarding the self-purchase of shares in the Company that were executed in the reporting period, see the consolidated statement of changes in shareholders' equity in the interim consolidated financial statements for the quarter.

18. Directors having accounting and financial expertise

No changes have occurred during the reporting period regarding the determination of the minimum number of directors having accounting and financial expertise that is required in the Company's Board of Directors or regarding the number of Directors having accounting and financial expertise, who hold office in the Company.

19. Independent directors

As of the reporting date, the Company has not adopted any provisions in its articles of association in respect of the number of independent directors within the definition of that term in section 1 of the Companies Law – 1999.

20. Disclosure in respect of the corporation's Internal Auditor

No significant changes have occurred in the reporting period relation to the details in respect of the Internal Auditor of the Company as detailed in the Company's periodic report for the year 2016.

21. Donations

Since the time of the publication of the Company's financial statements for the year 2016, there has not been a significant change in relation to the Company's social involvement and contribution to the community.

The Board wishes to thank the Company's managers and staff for their contribution.

THE BOARD

Itamar Deutscher	**Michael Salkind**
Chief Executive Officer	**Chairman of the Board of Directors**

May 18, 2017

In this Report of the Board of Directors for the period ended March 31, 2017, the figures in US Dollars are a convenience translation of the amounts originally reported in new Israeli Shekels at the representative exchange rate of the New Israeli Shekel against US Dollar on March 31, 2017 (US$ 1.- = NIS 3.632).

Kost Forer Gabbay & Kasierer
3 Aminadav St.
Tel-Aviv 6706703
Tel: +972 -3-6232525
Fax:+972 -3-5622555
ey.com

Auditors' review report to the shareholders of Electra Ltd.

Introduction

We have reviewed the accompanying financial information of Electra Ltd. and its subsidiaries (hereinafter - "the Group"), which includes the condensed consolidated statements of financial position as of March 31, 2017, the condensed consolidated statements of profit or loss and of comprehensive income, the statement of changes in shareholders' equity and the statement 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 7% of the total consolidated assets as of March 31, 2017, and whose revenues constitute approximately 9% of the total consolidated revenues for the period of three months ended on that date. Furthermore, we have not reviewed the condensed financial information for the interim period of companies accounted for at equity, the investment in which amounted to approximately US$ 90,818 thousand as of March 31, 2017 and the Group's share of whose profits amounted to approximately US$ 2,718 thousand for 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 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 2E).

Yours sincerely

KOST FORER GABBAY & KASIRER
Certified Public Accountants

Tel-Aviv
May 18, 2017

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Current assets			
Cash and cash equivalents	85,501	132,348	177,489
Investments, restricted cash and deposit in trust	44,218	32,883	48,753
Trade receivables	203,640	206,744	201,930
Other receivables	54,870	42,649	55,461
Income receivable from works under construction contracts	217,424	188,621	190,975
Inventory	25,247	28,650	23,203
Inventories of real estate and rights in real estate	118,194	66,784	80,153
	749,094	698,679	777,964
Non-current assets			
Investments in entities accounted for at equity	181,237	158,681 (*)	174,485 (*)
Other long-term receivables	4,577	4,432	3,969
Fixed assets, net	56,601	46,496	51,513
Goodwill and other intangible assets, net	168,398	105,619	108,005
Receivables for concession arrangement for the provision of services	26,774	28,916	27,406
Long-term inventories of real estate	17,945	17,349	16,116
Deferred taxes	1,428	4,155	1,036
	456,960	365,648	382,530
	1,206,054	1,064,327	1,160,494

(*) Adjusted retrospectively, see Note 5G.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	March 31		December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Current liabilities			
Credit from banking entities and others	17,440	12,638	13,537
Loans to finance entrepreneurial real estate	16,975	33,787	27,204
Current maturities of bonds	32,003	26,083	32,035
Trade payables	281,433	271,674	293,599
Other payables	211,614	122,838	165,218
Dividend payable to shareholders in the Company	10,187	17,898	8,535
Liabilities in respect of works under construction contracts	89,847	83,593	92,411
	659,499	568,511	632,539
Non-current liabilities			
Liabilities to banking entities	3,586	11,136	5,190
Bonds	203,837	177,685	204,045
Other long-term liabilities	58,847	27,900	27,381
Employee benefit liabilities, net	10,114	9,928	10,137
Deferred taxes	33,020	28,292	25,037
	309,404	254,941	271,790
Equity attributed to shareholders in the company			
Share capital	32,353	32,353	32,353
Share premium	85,015	99,862 (*)	99,551 (*)
Capital reserves for translation differences in investee companies and other reserves	(87,761)	(81,709)	(86,827)
Treasury shares	(7,683)	(8,505)	(7,683)
Retained earnings	210,655	189,347 (*)	211,955 (*)
	232,579	231,348	249,349
Non-controlling interests	4,572	9,527	6,816
Total equity	237,151	240,875	256,165
	1,206,054	1,064,327	1,160,494

(*) Adjusted retrospectively, see Note 5G.

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

May 18, 2017			
Date of approval of the financial statements	Michael Salkind Chairman of the Board of Directors	Itamar Deutscher Chief Executive Officer	Isaac Nissim Chief Financial Officer

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands (except per share data)		
Revenues from the performance of works and the provision of services	387,124	341,008	1,402,794
Cost of works and services	(359,777)	(320,839)	(1,304,234)
Gross profit	**27,347**	**20,169**	**98,560**
Administrative and general expenses	(13,028)	(11,227)	(46,649)
Selling and marketing expenses	(1,001)	(841)	(3,922)
Company's share of the profits of entities accounted for at equity, net	3,156	5,070 (*)	11,204 (*)
Other income (expenses), net	(190)	5,975	15,027
	(11,063)	(1,023)	(24,340)
Operating income	**16,284**	**19,146**	**74,220**
Financing income	3,459	2,154	10,397
Financing expenses	(5,765)	(4,788)	(18,226)
Financing expenses, net	(2,306)	(2,634)	(7,829)
Income before taxes on income	**13,978**	**16,512**	**66,391**
Taxes on income	(4,220)	(4,299)	(17,016)
Income from continuing operations	9,758	12,213	49,375
Loss from discontinued operations, net	-	(152)	(4,280)
Net income	9,758	12,061	45,095
Net income attributable to:			
Shareholders in the Company	8,856	11,458	42,830
Non-controlling interests	902	603	2,265
	9,758	12,061	45,095
Net earnings (loss) per share attributable to shareholders in the Company (in U.S. Dollars):			
Basic net earnings (loss) per share:			
From continuing operations	2.47	3.27	13.11
From discontinued operations	-	(0.04)	(1.19)
	2.47	3.23	11.92
Diluted net earnings (loss) per share:			
From continuing operations	2.43	3.26	12.78
From discontinued operations	-	(0.04)	(1.19)
	2.43	3.22	11.59

(*) Adjusted retrospectively, see Note 5G.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
CONVENIENCE TRANSLATION INTO US DOLLARS

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Net income	**9,758**	**12,061**	**45,095**
Other comprehensive income (loss) - (after tax effects)			
Amounts that will never be reclassified to profit or loss:			
Gain (loss) from the re-measurement of defined benefit plans, net	-	(4)	33
Amounts that will be classified or reclassified to profit or loss, when specific conditions are met:			
Adjustments deriving from the translation of the financial statements of foreign operations, net	(462)	2,252	(2,750)
Gain (loss) on hedging transactions, net	(1,132)	314	(1,149)
Other comprehensive income (loss)	**(1,594)**	**2,562**	**(3,866)**
Total comprehensive income	**8,164**	**14,623**	**41,229**
Comprehensive income attributable to:			
Shareholders in the Company	7,262	14,020	38,964
Non-controlling interests	902	603	2,265
	8,164	14,623	41,229

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS

	Attributable to shareholders in the Company										
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment transactions	Capital reserve for hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of foreign operations	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited										
	U.S. Dollars in thousands										
Balance as of January 1, 2017 (Audited)	**32,353**	**99,551 (*)**	**211,955 (*)**	**3,344**	**(586)**	**227**	**(89,812)**	**(7,683)**	**249,349**	**6,816**	**256,165**
Net income	-	-	8,856	-	-	-	-	-	8,856	902	9,758
Other comprehensive loss:											
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(462)	-	(462)	-	(462)
Loss on hedging transactions, net	-	-	-	-	(1,132)	-	-	-	(1,132)	-	(1,132)
Total other comprehensive loss	-	-	-	-	(1,132)		(462)	-	(1,594)	-	(1,594)
Total comprehensive income (loss)	**-**	**-**	**8,856**	**-**	**(1,132)**		**(462)**	**-**	**7,262**	**902**	**8,164**
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,180)	(3,180)
Acquisition of non-controlling interests	-	-	31	-	-	-	-	-	31	258	289
Initial consolidation of a company	-	-	-	-	-	-	-	-	-	(224)	(224)
Acquisition of an affiliated company under the same control	-	(14,536)	-	-	-	-	-	-	(14,536)	-	(14,536)
Cost of share-based payments	-	-	-	660	-	-	-	-	660	-	660
Dividend to shareholders in the company	-	-	(10,187)	-	-	-	-	-	(10,187)	-	(10,187)
Balance as of March 31, 2017	**32,353**	**85,015**	**210,655**	**4,004**	**(1,718)**	**227**	**(90,274)**	**(7,683)**	**232,579**	**4,572**	**237,151**

(*) Adjusted retrospectively, see Note 5G.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS

	Attributable to shareholders in the Company										
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment transactions	Capital reserve for hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of foreign operations	Treasury shares	Total	Non-controlling interests	Total equity
	Unaudited										
	U.S. Dollars in thousands										
Balance as of January 1, 2016 (Audited)	**32,353**	**99,862 (*)**	**195,787 (*)**	**1,711**	**563**	**194**	**(87,062)**	**(7,892)**	**235,516**	**9,214**	**244,730**
Net income	-	-	11,458	-	-	-	-	-	11,458	603	12,061
Other comprehensive income (loss):											
Loss on the re-measurement of defined benefit plans, net	-	-	-	-	-	(4)	-	-	(4)	-	(4)
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	2,252	-	2,252	-	2,252
Gain on hedging transactions, net	-	-	-	-	314	-	-	-	314	-	314
Total other comprehensive income (loss)	-	-	-	-	314	(4)	2,252	-	2,562	-	2,562
Total comprehensive income (loss)	**-**	**-**	**11,458**	**-**	**314**	**(4)**	**2,252**	**-**	**14,020**	**603**	**14,623**
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(290)	(290)
Purchase of treasury shares, net	-	-	-	-	-	-	-	(613)	(613)	-	(613)
Cost of share-based payments	-	-	-	323	-	-	-	-	323	-	323
Dividend to shareholders in the company	-	-	(17,898)	-	-	-	-	-	(17,898)	-	(17,898)
Balance as of March 31, 2016	**32,353**	**99,862**	**189,347**	**2,034**	**877**	**190**	**(84,810)**	**(8,505)**	**231,348**	**9,527**	**240,875**

(*) Adjusted retrospectively, see Note 5G.

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

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
CONVENIENCE TRANSLATION INTO US DOLLARS

	Attributable to shareholders in the Company										
	Share capital	Share premium	Retained earnings	Capital reserve for share-based payment transactions	Capital reserve for hedging transactions	Capital reserve on the remeasure-ment of defined benefit plans	Adjustments deriving from the translation of financial statements of foreign operations	Treasury shares	Total	Non-controlling interests	Total equity
	U.S. Dollars in thousands										
Balance as of January 1, 2016	**32,353**	**99,862 (*)**	**195,787 (*)**	**1,711**	**563**	**194**	**(87,062)**	**(7,892)**	**235,516**	**9,214**	**244,730**
Net income	-	-	42,830	-	-	-	-	-	42,830	2,265	45,095
Other comprehensive income (loss):											
Gain on the re-measurement of defined benefit plans, net	-	-	-	-	-	33	-	-	33	-	33
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(2,750)	-	(2,750)	-	(2,750)
Loss on hedging transactions, net	-	-	-	-	(1,149)	-	-	-	(1,149)	-	(1,149)
Total other comprehensive income (loss)	-	-	-	-	(1,149)	33	(2,750)	-	(3,866)	-	(3,866)
Total comprehensive income (loss)	**-**	**-**	**42,830**	**-**	**(1,149)**	**33**	**(2,750)**	**-**	**38,964**	**2,265**	**41,229**
Exercise of option warrants into shares	-	(467)	-	(355)	-	-	-	822	-	-	-
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,746)	(3,746)
Benefit from an interested party	-	156 (*)	-	-	-	-	-	-	156	-	156
Acquisition of non-controlling interests	-	-	(229)	-	-	-	-	-	(229)	(917)	(1,146)
Purchase of treasury shares, net	-	-	-	-	-	-	-	(613)	(613)	-	(613)
Cost of share-based payment	-	-	-	1,988	-	-	-	-	1,988	-	1,988
Dividend to shareholders in the company	-	-	(26,433)	-	-	-	-	-	(26,433)	-	(26,433)
Balance at December 31, 2016	**32,353**	**99,551**	**211,955**	**3,344**	**(586)**	**227**	**(89,812)**	**(7,683)**	**249,349**	**6,816**	**256,165**

(*) Adjusted retrospectively, see Note 5G.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Cash flows from operating activities:			
Net income	9,758	12,061	45,095
Adjustments to reconcile net income to cash flows from operating activities:			
Adjustments to profit and loss items:			
Company's share of profits of companies accounted for at equity, net	(3,156)	(5,070) (*)	(11,204) (*)
Dividend received from companies accounted for at equity	157	2,348	5,162
Depreciation and amortization	4,987	3,154	15,734
Increase (decrease) in employee benefit liabilities, net	(242)	103	474
Loss (gain) on the disposal of fixed assets and investments, net	49	(5,955)	(16,750)
Increase in the value of marketable securities, net	(468)	(62)	(1,979)
Cost of share-based payment	660	323	1,988
Deferred taxes, net	644	1,550	(2,023)
Erosion (revaluation) of long-term receivables and payables, long-term loans and bonds, net	34	2,314	(2,031)
Adjustments in respect of a loss on discontinued operations, net	-	152	4,280
Changes in asset and liability items:			
Decrease (increase) in trade receivables	2,719	(13,391)	(12,186)
Decrease (increase) in other receivables and in respect of a concession arrangement for the provision of services	2,121	(3,661)	(20,421)
Increase in income receivable from work under construction contracts	(26,547)	(1,719)	(6,175)
Decrease (increase) in inventory	(1,358)	1,043	229
Decrease (increase) in inventories of real estate and rights in real estate	(2,517)	1,122	2,861
Increase (decrease) in trade payables	(16,672)	(226)	27,819
Increase in other payables	6,443	18,082	43,174
Decrease in liabilities in respect of works under construction contracts	(1,420)	(30,606)	(13,094)
	(34,566)	(30,499)	15,858
Net cash generated (absorbed) by continuing operating activities (before acquisition of and investment in land)	(24,808)	(18,438)	60,953
Acquisition of and investment in land (**)	(3,072)	-	-
Net cash generated (absorbed) by continuing operating activities	(27,880)	(18,438)	60,953
Net cash absorbed by discontinued operating activities	-	(2,135)	(942)
Net cash generated (absorbed) by operating activities	(27,880)	(20,573)	60,011

(*) Adjusted retrospectively, see Note 5G.

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

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
Cash flows from investment activities:			
Investment in entities accounted for at equity, net	(14,348)	(5,859)	1,347
Decrease (increase) in investments, restricted cash and deposit in trust, net	546	5,212	(14,730)
Purchase of fixed assets and intangible assets	(10,151)	(8,555)	(23,550)
Decrease in receivables for a concession arrangement for the provision of services	375	385	1,552
Acquisition of initially consolidated companies (A)	(24,001)	-	(8,650)
Proceeds from the sale of fixed assets	184	8,650	10,009
Repayment of (investment in) marketable securities, net	3,458	(7,385)	(6,560)
Collection of long-term debts, net	4	1	7
Net cash absorbed by investment activities	(43,933)	(7,551)	(40,575)
Cash flows from financing activities:			
Acquisition of non-controlling interests	-	-	(1,146)
Payment of dividend to non-controlling interests and to shareholders in the company	(8,916)	(290)	(18,680)
Acquisition of treasury shares, net	-	(613)	(613)
Issuance of bonds, net	-	-	57,749
Repayment of long-term loans	(2,815)	(3,336)	(10,913)
Repayment of bonds	-	-	(25,790)
Short-term credit from banking entities and others and for the financing of entrepreneurial real estate, net	(7,976)	253	(1,599)
Net cash absorbed by financing activities	(19,707)	(3,986)	(992)
Exchange differences in respect of cash and cash equivalents	(468)	(1,985)	(7,398)
Increase (decrease) in cash and cash equivalents	(91,988)	(34,095)	11,046
Cash and cash equivalents at the beginning of the period	177,489	166,443	166,443
Cash and cash equivalents at the end of the period	85,501	132,348	177,489

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Three months ended March 31		Year ended December 31
	2017	2016	2016
	Unaudited		Audited
	U.S. Dollars in thousands		
(A) Acquisition of initially consolidated companies			
The consolidated company's assets and liabilities at date of acquisition:			
Working capital, net (excluding cash and cash equivalents)	1,504	-	3,792
Fixed assets, net	(645)	-	(83)
Intangible assets, net	(32,487)	-	(14,322)
Goodwill	(28,876)	-	(1,432)
Provision for vacation pay	-	-	276
Deferred taxes	6,883	-	2,703
Non-current assets	(814)	-	-
Non-current liabilities	30,658	-	204
Non-controlling interests	(224)	-	-
Gain on the entry into consolidation	-	-	212
	(24,001)	-	(8,650)
(B) Additional cash flow information:			
Cash paid during the period for:			
Interest	3,707	658	9,010
Taxes on income	8,292	1,914	8,480
Cash received during the period for:			
Interest	937	774	3,703
Taxes on income	46	904	928
(C) Significant activities not involving cash flows			
Dividend payable to non-controlling interests and to shareholders in the company	12,986	17,898	11,501
Liabilities to owners of land	32,961	-	14,975

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS

Note 1 - General

These financial statements have been prepared in a condensed format as at March 31, 2017 and for the period of three months ended on that date (hereinafter – the interim consolidated financial statements).
The interim financial statements should be read together with the Company's annual financial statements as of December 31, 2016 and for 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 International Financial Reporting Standard 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. New accounting standards and amendments that have been initially implemented by the Company for the first time

The accounting policies that have been implemented in the preparation of the interim consolidated financial statements are identical to those adopted in the preparation of the annual consolidated financial statements.

C. Disclosure of new IFRS Standards in the period before their implementation

For information regarding the implementation time, the transition provisions and the expected impacts on the Company of the standards that are detailed below, see Note 2AD to the Company's annual financial statements as of December 31, 2016:

- IFRS 9 – Financial instruments.
- IFRS 16 – Leasing.

D. The following are data in respect of the Israeli Consumer Prices Index and the exchange rates of various currencies in relation to the NIS which are relevant to the group

	March 31		December 31
	2017	2016	2016
Israeli Consumer Prices Index (in points) *)	220.24	219.35	220.68
Exchange rates (in NIS):			
U.S. Dollar	3.63	3.77	3.84
Euro	3.88	4.29	4.04
100 Russian Ruble	6.44	5.57	6.34
100 Nigerian Naira	1.19	1.90	1.26

*) The known index on an average basis of 1993 = 100.

	Three months ended March 31		Year ended December 31
	2017	2016	2016
Rate of change in the period (%):			
Israeli Consumer Prices Index	(0.20)	(0.91)	(0.30)
U.S. Dollar	(5.54)	(3.49)	(1.46)
Euro	(4.00)	0.91	(4.78)
Russian Ruble	1.63	4.05	18.40
Nigerian Naira	(5.96)	(3.16)	(35.80)

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS

Note 2 - Significant accounting policies (Continued)

E. Convenience translation

The annual 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 for 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.

Note 3 - Operating segments

A. General:

As stated in the financial statements as of December 31, 2016, the Group operates in a number of fields of activity, as follows:

1. The construction and infrastructure projects in Israel.
2. The construction and infrastructure project abroad.
3. Services and maintenance.
4. The development and construction of entrepreneurial real estate.
5. Concessions.

For further information see Note 1 A to the annual financial statements.

B. The reporting of operating segments:

	For the three months ended March 31, 2017						
	Construction and infrastructure projects in Israel	Construction and infrastructure projects abroad	Services and maintenance	Development & construction of entrepreneurial real estate	Concessions	Adjustments	Total
	Unaudited						
	U.S. Dollars (in thousands)						
Revenues	260,765	16,799	111,403	4,649	890	(7,382)	387,124
Inter-segmental activities	(5,254)	-	(2,128)	-	-	7,382	-
Total external revenues	255,511	16,799	109,275	4,649	890	-	387,124
Segmental operating income	7,372	1,158	10,360	1,383	(779)	175	19,669
Less – unallocated expenses:							
Administrative and general expenses							(3,340)
Financing expenses							(2,306)
Selling and marketing							(45)
Income before taxes on income							13,978

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS

Note 3 – Operating segments - (continued)

B. The reporting of operating segments: - (continued)

	For the three months ended March 31, 2016						
	Construction and infrastructure projects in Israel	Construction and infrastructure projects abroad	Services and maintenance	Development & construction of entrepreneurial real estate	Concessions	Adjustments	Total
	Unaudited						
	U.S. Dollars (in thousands)						
Revenues	237,419	6,964	94,656	1,795	806	(632)	341,008
Inter-segmental activities	-	-	(632)	-	-	632	-
Total external revenues	237,419	6,964	94,024	1,795	806	-	341,008
Segmental operating income	7,845	507	8,155	5,686 (*)	143	-	22,336
Less – unallocated expenses:							
Administrative and general expenses							(3,202)
Financing expenses							(2,634)
Others							12
Income before taxes on income							16,512

	For the year ended December 31, 2016						
	Construction and infrastructure projects in Israel	Construction and infrastructure projects abroad	Services and maintenance	Development & construction of entrepreneurial real estate	Concessions	Adjustments	Total
	Audited						
	U.S. Dollars (in thousands)						
Revenues	940,480	51,079	405,727	9,234	4,229	(7,955)	1,402,794
Inter-segmental activities	(1,705)	-	(6,250)	-	-	7,955	-
Total external revenues	938,775	51,079	399,477	9,234	4,229	-	1,402,794
Segmental operating income	32,630	1,360	36,534	7,048 (*)	10,317	456	88,345
Less – unallocated expenses:							
Administrative and general expenses							(13,491)
Selling and marketing expenses							(325)
Financing expenses							(7,829)
Others							(309)
Income before taxes on income							66,391

(*) Retrospectively adjusted, see Note 5G

.

Note 4 – Financial instruments

The following are the carrying values in the accounting records and the fair values of financial instruments, which are not presented at their fair value in the financial statements:

	As of March 31				As of December 31	
	2017		2016		2016	
	Carrying value	Fair value	Carrying value	Fair value	Carrying value	Fair value
	Unaudited				Audited	
	U.S. Dollars (in thousands)					
Loans from banking entities and others – at fixed interest *)						
In NIS – Index linked	460	480	1,162	1,184	726	759
In NIS – Unlinked	10,668	11,008	19,511	20,471	13,378	13,971
In Euro	-	-	221	227	-	-
Bonds						
Bonds (Series C) – Index linked	82,650	88,798	98,788	108,275	81,875	88,432
Bonds (Series D) – Unlinked	153,421	163,371	107,642	114,696	154,889	160,985
Total	247,199	263,657	227,324	244,853	250,868	264,147

*) The fair value of the long-term loans that bear fixed rate interest is based on a calculation of the present value of the cash flows in accordance with the generally accepted interest rate for similar loans with similar characteristics, excluding the deferred expenses in respect of the loans.

Note 5 - Significant events in the reporting period and thereafter

A. The Planetograd project

1. In continuation of what is stated in Note 11D(3) of the annual consolidated financial statements as of December 31, 2016, regarding the Planetograd project and the commitment by Morgal Investments LLC (hereinafter: "The seller") with a third party (hereinafter: "The purchaser"), in January 2017, a number of additional changes in the legislation, which form part of a change in the legislation entered force. Within the framework of the changes, the area of the project and the surrounding area have been classified as "cultural heritage" areas in respect of which specific principles for planning and construction are to be defined, which must accord with certain preservation principles that have already been set in the said legislation, which also include the need for the approval of an additional professional authority in this connection (KGIOP) (hereinafter: "The general preservation principles").

   At the beginning of March 2017, a draft of a proposed law, which included details of the detailed principles for cultural heritage areas (hereinafter: "The draft of the detailed principles"). The draft of the detailed principles is subject to a public hearings process and the presentation of objections. In April 2017, Morgal presented its objections to the draft law in its current version, before the public hearings process and the presentation of objections. The draft of the details principles includes comprehensive changes in the relevant planning parameters and also in relation to transition provision in relation to plans and planning documents that have been approved previously. As of the reporting date, the Company is unable to evaluate which of the detailed principles for cultural heritage areas will be approved at the end of the legislative processes and what their impact will be on the project.

Note 5 - Significant events in the reporting period and thereafter (Continued)

A. The Planetograd project (Continued)

1. (Continued)

   Against the said background, the Saint Petersburg planning authority is, in practice, delaying the awarding of a GPZU (a municipal outline plan, under which it is possible to issue building permits) and new building permits, which is apparently until the abovementioned legislative situation becomes clearer.

2. On April 7, 2017, upon the receipt of the building permits for the first stage and the start of the construction of the project and the marketing thereof, an addition to the framework agreement and additions to the sale agreements for the residential parcels in the first block were signed between the parties, with effect as from February 1, 2017 (hereinafter: "The additions" or "The addition" as the case may be), within the framework of which changes will be made to the agreements, the main points of which are as detailed below:

   a) The reduction of the consideration to which the seller will be entitled to a rate of 16% of the receipts from the sales, which the purchaser may receive from the residential apartments that it may build on the residential parcels, as from February 1, 2017, instead of a rate of 17% from such receipts prior to the commitments under the additions.

   b) The parties will bear the amount of the commissions in respect of the issuance of autonomous banking guarantees by the purchaser in favor of the seller in equal shares (i.e. 50% each) (instead of at a rate of 90%, which the seller was required to bear prior to the addition), which will be reduced in accordance with the pace of the payments of the consideration.

   c) In accordance with the addition, which updated the sale agreement for parcel 57 in the first block, the following provisions will apply: insofar as the purchaser may receive building permits for the residential parcels for the residential parcels in blocks 1-8 (in addition to parcel 57, in respect of which the building permit has already been received) the purchaser will be entitled to defer some of the routine monthly payments that are paid to the seller in respect of parcel 57, amounts which will be calculated in accordance with the formula that has been set in the said addition and in any event, the overall amount may not exceed an amount of 350 million Rubles, (equivalent to US$ 6 million at a time shortly before the time o the publication of the report) (hereinafter: "The temporarily reduced amount"). The purchaser has undertaken to refund 25% of the temporarily reduced amount to the seller no later than November 21, 2018, an additional 25% of the temporarily reduced amount no later than November 21, 2019 and the balance of the temporarily reduced amount no later than November 21, 2020.

   d) In connection with the possibility of reducing the minimum price in relation to any relevant residential parcels whatsoever, in blocks 1-8, or in the event of an absence of agreement between the parties in relation to this, on the matter of the exercise of the right to cancel the agreement by mean of an approach to the authorized court, and this, in relation to a case in which the extent of the building rights will be less than 80% of the rights that are approved in the abovementioned relevant residential parcels in accordance with the PPT, which has been received for the project (an approval that is equivalent to an urban construction plan) – the said mechanism has been updated with the additions, as detailed below:

Note 5 - Significant events in the reporting period and thereafter (Continued)

A. The Planetograd project (Continued)

2. d) (Continued)

1) In the case that the extent of the building rights that is set in the building permit in relation to each of the residential parcels (other than parcel 57) will be between 60% and 80% of the rights that are approved for that residential parcel pursuant to the PPT, the minimum price will be reduced in relation to that residential parcel in accordance with the formulae that are set in the additions, and it will not be possible to exercise the right to cancel the framework agreement in relation to the relevant residential parcels and/or the relevant sale agreement, by means of a referral to the authorized court (to differentiate from the situation before the signature of the additions, which enabled the exercise of the right to cancel in such a case).

2) In the event that the extent of the building rights that has been set in the building permit in relation to each of the residential parcels (other than parcel 57) will be less than 60% of the rights that were approved for that residential parcel in accordance with the PPT, then parties will conduct negotiations between them in respect of this, including the possibility of adjusting the minimum price. If the parties are unable to reach agreement between them within 180 days from the day on which notification of this is delivered, each party will be entitled to demand the cancellation of the framework agreement in relation to the relevant residential parcel and/or in relation to the relevant sale agreement, by means of a referral to the relevant court.

e) In relation to the possibility that no solution is found for the connection of the sewage system to the residential parcels in blocks 3 to 8 alone (hereinafter: "The sewage solution") or in the event that the sewage solution that may be found will be more than 2.5 times more expensive than the tariff that was determined in connection in connection with blocks 1 and 2 with the local water and sewage corporation in the area of the project – it has been determined in the additions that the purchaser will not be entitled to demand the reduction of the minimum price in relation to a specific block, or in the event of the absence of agreement on this matter, to operate the right to cancel the agreements that are relevant to that block, by means of an approach to the authorized court, and this so long as the sewage solution in connection with the relevant block accords with the technical terms and the consideration that were set in the existing agreement that was signed with the local water and sewage corporation for all of the blocks in the project.

3. During the reporting period, the discontinuation conditions in connection with parcel 57 ceased to exist.

B. On January 18, 2017, the Company completed a transaction for the acquisition of 60% of the issued and paid up share capital of Megason Electronics and Control (1978) Ltd. (hereinafter: "Megason"), from The Company for the Purchase of M.S. Ltd.

Megason is a private company that is registered in Israel and which is a leading supplier of customized security and protection solutions for the private and public sectors, with its own instillations and service operations. Megason provided integrated solutions comprising entry control systems; surveillance cameras; alarm systems, monitoring, fire detection and extinguishing systems; control and management systems; all around control; intercom systems and software development.

Note 5 - Significant events in the reporting period and thereafter (Continued)

B. (Continued)

In consideration for the shares being sold, the Company paid an amount of US$ 23.8 million to the seller at the time of the completion, in cash. Within the framework of the agreement, a mechanism was determined for the payment of conditional consideration in accordance with the net income results, as defined in the agreement, for the years 2014 to 2018.

Furthermore, the agreement included a put option and a call option for the Company's shares, which remain in the hands of the seller, as from December 1, 2022, based on the net income times a factor that was set in the agreement as well as possibilities that both the Company and the seller will have the right to exercise the said option at an earlier time.

The Company has prepared a temporary surplus cost allocation paper (PPA) for the purposes of the quarterly financial statements and the intangible assets that have been identified for the acquisition are a backlog of orders of US$ 3.6 million (which will be amortized over a period of two years), customer contacts in an amount of US$ 28.9 million and goodwill in an amount of US$ 28.9 million (which will be amortized over a period of 15 years). The overall net cost of the acquisition, after tax effects, amounts to US$ 54 million.

All of the terms in connection with the transaction have been completed and the parties have signed on a shareholders' agreement between them and management agreements have been signed between Megason and the controlling interests in Megason, Messrs. Eyal Segal and Baruch Shacham, in addition to which an agreement has been signed between Megason and a company that is controlled by Mr. Baruch Shacham for the rental of Megason's offices for a period of 10 years. The company has consolidated Megason's financial statements as from the first quarter of 2017, and its activities are presented under the construction and infrastructures projects in Israel and the services and maintenance segments.

C. On January 18, 2017, the Company entered into a commitment under an agreement with a purchase group (hereinafter: "The commissioner") for the performance of contractor works on the "United Sarona" project in the Southern Kirya site in Tel-Aviv (hereinafter: "The project").

In accordance with the agreement, the Company will build three residential towers, containing residential property, commercial spaces, offices and parking facilities, on a scale that is estimated at US$ 165 million, on the project's land, after its purchase has been completed by the commissioner.

The commitment under the agreement is conditional upon the meeting of a number of crucial terms, which have not yet been completed as of the time of the approval of the financial statements, and in particular, the commissioner's commitment under a banking accompaniment agreement for the financing of the construction.

D. On February 14, 2017, a wholly owned subsidiary company won a "Price for the Resident" tender held by the Israel Land Authority for the purchase of land with an area of 3,755 square meters in the Neot Sadeh in Ra'anana (for the construction of 82 housing units and 350 square meters of commercial space) for consideration of US$ 14.6 million (including development costs). The Company expects that the construction of the project on the abovementioned land may lead to receipts of US$ 41.3 million (exclusive of VAT) for the Company over the lifetime of the project.

E. Further to what is stated in Note 10A(4) to the annual consolidated financial statements as of December 31, 2016, on February 21, 2017, a wholly owned subsidiary company of the Company entered into a commitment in a transaction within the context of which it sold to Megeurit Israel Ltd. all of the apartments (84 housing units) in one of the potential towers, which the Company intends to construct on land for a project in Ramle, for consideration of US$ 29 million (exclusive of VAT).

Note 5 - Significant events in the reporting period and thereafter (Continued)

F. Further to what is stated in Note 26B to the annual consolidated financial statements as of December 31, 2016, regarding the win by a joint venture that is held by the Company in a tender for the planning, construction and maintenance of Teva Pharmaceutical Industries Ltd.'s campus in Ra'anana, on March 1, 2017, the joint venture received notification in writing from Teva that Teva had decided to permanently discontinue the performance of the works pursuant to the provisions of the agreement between it and the joint venture, which is the subject of the agreement. The timing of the cessation of the works was immediately. Pursuant to the notification, the joint venture was required to perform all of the works that are necessary in order to ensure the safety of the site, including in accordance with the municipality's instructions. The joint venture is considering its next steps in the light of Teva's notification and the implications thereof.

G. On March 5, 2017, a general meeting of the Company’s shareholders approved a commitment by Electra Investments (1998) Ltd., a wholly owned subsidiary company of the Company (hereinafter: "Electra Investments") with Electra Real Estate Ltd. (hereinafter: "Electra Real Estate"), a company that is controlled by Elco Ltd. (hereinafter: "Elco"), the controlling interest in the Company, in a transaction in which on March 8, 2017, (hereinafter: "The time of the completion of the transaction") Electra Investments purchased all of Electra Real Estate's rights and liabilities in relation to 15 regular shares of NIS 0.01 par value each in Midtown Ltd. (hereinafter: "Midtown") constituting 12.5% of Midtown's issued and paid-up share capital (at full dilution) (hereinafter: "The shares being acquired"), except for the right to surpluses (as defined below), from Electra Real Estate against the payment of cash consideration of US$ 11.6 million; in addition, Electra Real Estate endorsed to Electra Investments all of its rights and commitments pursuant to the founders' agreement, which had been signed between the shareholders in Midtown (hereinafter: "The founders' agreement"), including all of Electra Real Estate's rights and commitments in connection with a shareholder's loan, which it had made available to Midtown (hereinafter: "The shareholder's loan"). Furthermore, Electra Real Estate was released from all of the guarantees and collateral that it had made available in support of the financing bodies.

Within the framework of the purchase of the shares being acquired, Electra Investments received the rights that are ancillary to the shares being acquired, to the receipt of 57% of the surpluses that Midtown may distribute in respect of the shares being acquired, whereas Electra Real Estate remained holding the right to receive 43% of the surpluses in respect of the shares being acquired (hereinafter: "The right in the surpluses"), after an initial distribution to Electra Investments in an amount of US$ 1.1 million, less the difference between (1) the accumulated interest on the shareholder's loan that will be endorsed within the framework of the transaction, as from January 1, 2017 and up to the time of the distribution of the surpluses, and (2) the difference between (a) the amount of the cash consideration and (b) the balance as of December 31, 2016 (principal and interest) of the loan that was endorsed, as aforesaid (the amount that will be paid to Electra Investments, as foresaid: "The additional amount").

Following the said acquisition, Electra Investments holds 25% of the shares in Midtown, the investment in which is accounted for at equity.

Since the investment was acquired from a corporation that is controlled by the controlling interest in the Company before and after the transaction, the acquisition has been treated similarly to the pooling of interests method. In accordance with this method, at the time of the acquisition the Company recorded the shares in the acquiree in accordance with their carrying value in the accounting records of the transferring company at that time. The financial statements for the previous periods have been adjusted retrospectively in order to reflect the financial position, the operating results, the cash flows and the shareholders' equity of the Company as if the acquisition had always been executed.

The impact on equity as of January 1, 2016 and as of December 31, 2016 amounted to an increase of US$ 12,040 thousand and an increase of US$ 14,536 thousand, respectively.

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS
CONVENIENCE TRANSLATION INTO US DOLLARS

Note 5 - Significant events in the reporting period and thereafter (Continued)

H. On February 28, 2017, S&P Ma'alot ratified the Company's rating at AA-/Stable.

On April 27, 2017, Midroog ratified the rating of A1 for the Company's bonds (Series C and D) with a stable outlook.

I. On March 29, 2017, the Company's Board of Directors approved a distribution of a dividend of US$ 10.2 million (approximately US$ 2.8 per share), which was paid on May 4, 2017.

J. On April 30, 2017, a wholly controlled subsidiary company entered into a commitment under a combination transaction with approximately 98% of the holders of the rights of a plot of land in Givat Shmuel, on which it is currently possible to build 100 housing units, in accordance with an approved urban construction plan. The subsidiary company is expected to present an application for the addition of 14 housing units. The subsidiary company will take action to complete the commitment or the purchase of the balance of the rights.

The Company expects that the construction of the project on the abovementioned land may generate revenue turnover of US$ 67 million (exclusive of VAT) over the lifetime of the project.

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