

ELCO LIMITED

Interim Consolidated Financial Statements

As of June 30, 2016

Convenience Translation into U.S. Dollars

(Unaudited)

ELCO LIMITED

Contents

<u>Review of Interim Statements</u>	3
 <u>Financial Statements as of June 30, 2016 (Unaudited)</u>	
Consolidated Statements of Financial Position	4 – 5
Consolidated Statements of Profit or Loss	6
Consolidated Statements of Comprehensive Income	7
Consolidated statements of Changes in Equity	8 – 12
Consolidated Statements of Cash Flows	13 – 15
Notes to the Consolidated Financial Statements	16

Auditors' review report to the shareholders of Elco Ltd.

Introduction

We have reviewed the accompanying financial information of Elco Ltd. and its subsidiaries (hereinafter - the Group), which includes the condensed consolidated balance sheet as of June 30, 2016, the condensed consolidated statements of profit or loss, of comprehensive income, of changes in equity and of cash flows, for the periods of six months and of three months ended on that date. The Company's board of directors and management are responsible for the preparation and presentation of financial information for these interim periods, in accordance with International Accounting Standard IAS 34, "Interim Financial Reporting" and they are also responsible for the preparation of financial information for these interim periods 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 periods of certain consolidated companies, whose assets constitute approximately 19% of the total consolidated assets as of June 30, 2016, and whose revenues constitute approximately 5% of the total consolidated revenues for the periods of six months and of three months ended on that date. Furthermore, we did not review the condensed financial information for these interim periods of companies that are accounted for at equity, the investment in which amounted to approximately US\$ 57,627 thousand as of June 30, 2016 and the Group's share of their profits amounted to approximately US\$ 2,016 thousand and approximately US\$ 672 thousand in the periods of six months and of three months ended on that date. The condensed financial information of those companies for the interim periods 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, from all material perspective, in accordance with International Accounting Standard IAS 34.

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

Convenience translation of the financial statements

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

Yours sincerely

KOST FORER GABBAY & KASIRER
Certified Public Accountants

Tel-Aviv, August 22, 2016

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

	June 30		December 31
	2016	2015	2015
	Unaudited		Audited
Current assets			
Cash and cash equivalents	166,907	154,413	200,057
Short-term investments	33,015	37,300	32,483
Trade receivables	335,579	270,711	283,803
Other accounts receivables	253,567	245,841	244,175
Inventory, inventory of real estate and residential apartments	253,225	299,995	241,203
Assets held for sale	2,261	13,943	250,644
	<u>1,044,554</u>	<u>1,022,203</u>	<u>1,252,365</u>
Non-current assets			
Long-term receivables	24,234	28,981	20,727
Receivables for concession arrangement for the provision of services	26,960	29,311	28,401
Investment in entities accounted for at equity	311,331	553,807	297,657
Long-term inventory of real estate	16,377	17,284	16,236
Income generating assets	130,607	153,978	124,449
Fixed assets	84,820	77,182	77,254
Goodwill and other intangible assets	196,084	176,831	183,706
Deferred tax assets	3,176	11,202	5,165
	<u>793,589</u>	<u>1,048,576</u>	<u>753,595</u>
	<u>1,838,143</u>	<u>2,070,779</u>	<u>2,005,960</u>

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

August 22, 2016
Date of approval of financial statements

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

	June 30		December 31
	2016	2015	2015
	Unaudited		Audited
Current Liabilities			
Credit from banking institutions and others	65,465	86,118	92,004
Bonds - current maturities	55,735	116,629	116,280
Suppliers and providers of services	408,411	365,048	377,743
Other payables	281,389	305,575	291,662
Liabilities in respect of assets held for sale	10,150	-	32,687
	<u>821,150</u>	<u>873,370</u>	<u>910,376</u>
Long-Term Liabilities			
Liabilities to banks and financial institutions	112,746	201,221	180,704
Bonds	313,720	444,990	409,413
Other liabilities	64,608	48,636	58,569
Employee benefit liabilities	14,118	12,015	14,024
Deferred taxes	45,692	95,975	42,414
	<u>550,884</u>	<u>802,837</u>	<u>705,124</u>
Equity			
Equity attributable to equity holders of the Company	257,211	190,212	187,116
Non-controlling interests	208,898	204,360	203,344
Total equity	<u>466,109</u>	<u>394,572</u>	<u>390,460</u>
	<u>1,838,143</u>	<u>2,070,779</u>	<u>2,005,960</u>

E. Vessely
Chief Financial Officer

D. Salkind
Joint General Manager

M. Fridman
Chairman of the Board of
Directors

ELCO LIMITED

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

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		Audited
Revenues, net	1,044,649	941,448	551,248	486,849	1,948,979
Adjustment of the fair value and the results of the disposal of income-generating assets, net	458	(1,771)	493	(312)	(2,076)
Group's share of the profits of companies accounted for at equity, net	13,060	10,570	5,176	1,076	19,111
Other income	77,665	869	597	553	2,630
Total	1,135,832	951,116	557,514	488,166	1,968,644
Cost of producing revenues	(886,296)	(796,043)	(462,994)	(413,534)	(1,650,732)
Selling and marketing expenses	(88,525)	(86,147)	(46,820)	(43,105)	(174,780)
Administrative and general expenses	(34,935)	(30,047)	(16,293)	(15,375)	(66,363)
Other expenses	(72)	(950)	(61)	(803)	(4,396)
Financing income	4,356	7,322	2,621	4,578	11,771
Financing expenses	(25,533)	(28,091)	(16,532)	(18,365)	(45,423)
Total	(1,031,005)	(933,956)	(540,079)	(486,604)	(1,929,923)
Income before taxes on income	104,827	17,160	17,435	1,562	38,721
Taxes on income	(13,702)	(9,582)	(7,967)	(3,963)	(10,673)
Income (loss) from continuing operations	91,125	7,578	9,468	(2,401)	28,048
Operating income from discontinued operations	-	9,921	-	9,456	28
Net income	91,125	17,499	9,468	7,055	28,076
Attributable to:					
Equity holders in the Company	74,200	7,768	915	3,399	10,511
Non-controlling interest	16,925	9,731	8,553	3,656	17,565
	91,125	17,499	9,468	7,055	28,076
Earnings per share - attributable to the Equity holders of the Company:					
Basic - Earnings					
From continuing operations	2.69	(0.07)	0.03	(0.21)	0.38
From discontinued operations	-	0.35	-	0.34	-
	2.69	0.28	0.03	0.13	0.38
Fully diluted - Earnings					
From continuing operations	2.68	(0.08)	0.02	(0.22)	0.37
From discontinued operations	-	0.35	-	0.34	-
	2.68	0.27	0.02	0.12	0.37

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

ELCO LIMITED**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		Audited
Net income	<u>91,125</u>	<u>17,499</u>	<u>9,468</u>	<u>7,055</u>	<u>28,076</u>
Other comprehensive income (loss) (after tax effects):					
Amounts that will never be reclassified to profit or loss:					
Loss on financial assets measured at fair value through other comprehensive income	-	(552)	-	(535)	(552)
Loss from the re-measurement of defined benefit plans	(4)	-	-	-	(897)
	<u>(4)</u>	<u>(552)</u>	<u>-</u>	<u>(535)</u>	<u>(1,449)</u>
Amounts that will be classified or reclassified to the profit or loss, when specific conditions are met:					
Adjustments deriving from the translation of the financial statements of foreign operations	(6,572)	(29,760)	(242)	(16,095)	(36,805)
Gain (loss) on hedging transactions	389	(1,854)	92	(3,511)	(3,308)
	<u>(6,183)</u>	<u>(31,614)</u>	<u>(150)</u>	<u>(19,606)</u>	<u>(40,113)</u>
Total other comprehensive loss	<u>(6,187)</u>	<u>(32,166)</u>	<u>(150)</u>	<u>(20,141)</u>	<u>(41,562)</u>
Total comprehensive income (loss)	<u>84,938</u>	<u>(14,667)</u>	<u>9,318</u>	<u>(13,086)</u>	<u>(13,486)</u>
Comprehensive income (loss) attributable to:					
Equity holders in the company	69,337	(10,863)	1,884	(10,360)	(10,974)
Non-controlling interests	15,601	(3,804)	7,434	(2,726)	(2,512)
	<u>84,938</u>	<u>(14,667)</u>	<u>9,318</u>	<u>(13,086)</u>	<u>(13,486)</u>

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

ELCO LIMITED

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

	Attributable to equity holders in the company												Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total		
	Unaudited													
Balance as of January 1, 2016 (audited)	29,640	14,344	(48,001)	303,339	125	(47,760)	3,003	(842)	(82,981)	7,425	8,824	187,116	203,344	390,460
Net income	-	-	-	74,200	-	-	-	-	-	-	-	74,200	16,925	91,125
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(5,068)	-	-	(5,068)	(1,504)	(6,572)
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(2)	-	-	-	(2)	(2)	(4)
Gain on hedging transactions	-	-	-	-	-	-	207	-	-	-	-	207	182	389
Total other comprehensive income (loss)	-	-	-	-	-	-	207	(2)	(5,068)	-	-	(4,863)	(1,324)	(6,187)
Total comprehensive income (loss)	-	-	-	74,200	-	-	207	(2)	(5,068)	-	-	69,337	15,601	84,938
Cost of share-based payment	-	-	-	-	-	-	-	-	-	238	-	238	983	1,221
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(9,708)	(9,708)
Acquisition non-controlling interests	-	-	-	520	-	-	-	-	-	-	-	520	(2,535)	(2,015)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	1,213	1,213
As of June 30, 2016	29,640	14,344	(48,001)	378,059	125	(47,760)	3,210	(844)	(88,049)	7,663	8,824	257,211	208,898	466,109

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

ELCO LIMITED

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

	Attributable to equity holders of the company													
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total	Non-controlling interests	Total equity
	Unaudited													
Balance as of January 1, 2015 (audited)	29,640	14,344	(48,001)	298,001	125	(47,438)	4,941	(312)	(64,403)	6,695	8,824	202,416	214,293	416,709
Changes following the initial implementation of IFRS 15	-	-	-	963	-	-	-	-	-	-	-	963	785	1,748
Balance as of January 1, 2015 following the initial implementation of IFRS 15	29,640	14,344	(48,001)	298,964	125	(47,438)	4,941	(312)	(64,403)	6,695	8,824	203,379	215,078	418,457
Net profit	-	-	-	7,768	-	-	-	-	-	-	-	7,768	9,731	17,499
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(17,237)	-	-	(17,237)	(12,523)	(29,760)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(322)	-	-	-	-	-	(322)	(230)	(552)
Loss on hedging transactions	-	-	-	-	-	-	(1,072)	-	-	-	-	(1,072)	(782)	(1,854)
Total other comprehensive loss	-	-	-	-	-	(322)	(1,072)	-	(17,237)	-	-	(18,631)	(13,535)	(32,166)
Total comprehensive income (loss)	-	-	-	7,768	-	(322)	(1,072)	-	(17,237)	-	-	(10,863)	(3,804)	(14,667)
Cost of share-based payment	-	-	-	-	-	-	-	-	-	365	-	365	875	1,240
Dividend to shareholders in the company	-	-	-	(2,600)	-	-	-	-	-	-	-	(2,600)	-	(2,600)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(8,076)	(8,076)
Purchase of treasury shares in subsidiary companies	-	-	-	(70)	-	-	-	-	-	-	-	(70)	(62)	(132)
Initially consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	348	348
Issuance of shares to non-controlling interests	-	-	-	1	-	-	-	-	-	-	-	1	1	2
As of June 30, 2015	29,640	14,344	(48,001)	304,063	125	(47,760)	3,869	(312)	(81,640)	7,060	8,824	190,212	204,360	394,572

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

ELCO LIMITED

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

	Attributable to equity holders in the company												Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total		
	Unaudited													
Balance as of April 1, 2016	29,640	14,344	(48,001)	377,144	125	(47,760)	3,161	(844)	(88,969)	7,543	8,824	255,207	200,711	455,918
Net income	-	-	-	915	-	-	-	-	-	-	-	915	8,553	9,468
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	920	-	-	920	(1,162)	(242)
Gain on hedging transactions	-	-	-	-	-	-	49	-	-	-	-	49	43	92
Total other comprehensive income (loss)	-	-	-	-	-	-	49	-	920	-	-	969	(1,119)	(150)
Total comprehensive income (loss)	-	-	-	915	-	-	49	-	920	-	-	1,884	7,434	9,318
Cost of share-based payment	-	-	-	-	-	-	-	-	-	120	-	120	508	628
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(104)	(104)
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	349	349
As of June 30, 2016	29,640	14,344	(48,001)	378,059	125	(47,760)	3,210	(844)	(88,049)	7,663	8,824	257,211	208,898	466,109

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

ELCO LIMITED

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

	Attributable to equity holders in the company												Non-controlling interests	Total equity
	Share capital	Share premium	Treasury Shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total		
	Unaudited													
Balance as of April 1, 2015	29,640	14,344	(48,001)	300,663	125	(47,447)	5,921	(312)	(70,246)	6,878	8,824	200,389	206,404	406,793
Net income	-	-	-	3,399	-	-	-	-	-	-	-	3,399	3,656	7,055
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(11,394)	-	-	(11,394)	(4,701)	(16,095)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(313)	-	-	-	-	-	(313)	(222)	(535)
Loss on hedging transactions	-	-	-	-	-	-	(2,052)	-	-	-	-	(2,052)	(1,459)	(3,511)
Total other comprehensive loss	-	-	-	-	-	(313)	(2,052)	-	(11,394)	-	-	(13,759)	(6,382)	(20,141)
Total comprehensive income (loss)	-	-	-	3,399	-	(313)	(2,052)	-	(11,394)	-	-	(10,360)	(2,726)	(13,086)
Cost of share-based payment	-	-	-	-	-	-	-	-	-	182	-	182	681	863
Issuance of shares to non-controlling interests	-	-	-	1	-	-	-	-	-	-	-	1	1	2
As of June 30, 2015	29,640	14,344	(48,001)	304,063	125	(47,760)	3,869	(312)	(81,640)	7,060	8,824	190,212	204,360	394,572

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	Attributable to equity holders of the company													
	Share capital	Share premium	Treasury shares	Retained earnings	Capital reserve on transactions with controlling interests	Capital reserve on financial assets at fair value through other comprehensive income	Capital reserve on hedging transactions	Capital reserve on the re-measurement of defined benefit plans	Adjustments deriving from the translation of financial Statements	Capital reserve on share-based payment	Revaluation reserve	Total	Non-controlling interests	Total equity
Balance as of January 1, 2015	29,640	14,344	(48,001)	298,001	125	(47,438)	4,941	(312)	(64,403)	6,695	8,824	202,416	214,293	416,709
Changes following the initial implementation of IFRS 15	-	-	-	963	-	-	-	-	-	-	-	963	785	1,748
Balance as of January 1, 2015 following the initial implementation of IFRS 15	29,640	14,344	(48,001)	298,964	125	(47,438)	4,941	(312)	(64,403)	6,695	8,824	203,379	215,078	418,457
Net profit	-	-	-	10,511	-	-	-	-	-	-	-	10,511	17,565	28,076
Other comprehensive income (loss):														
Adjustments deriving from the translation of financial statements	-	-	-	-	-	-	-	-	(18,695)	-	-	(18,695)	(18,110)	(36,805)
Loss on the re-measurement of defined benefit plans	-	-	-	-	-	-	-	(530)	-	-	-	(530)	(367)	(897)
Financial assets measured at fair value through other comprehensive income	-	-	-	-	-	(322)	-	-	-	-	-	(322)	(230)	(552)
Loss on hedging transactions	-	-	-	-	-	-	(1,938)	-	-	-	-	(1,938)	(1,370)	(3,308)
Total other comprehensive loss	-	-	-	-	-	(322)	(1,938)	(530)	(18,695)	-	-	(21,485)	(20,077)	(41,562)
Total comprehensive income (loss)	-	-	-	10,511	-	(322)	(1,938)	(530)	(18,695)	-	-	(10,974)	(2,512)	(13,486)
Cost of share-based payment	-	-	-	-	-	-	-	-	-	730	-	730	2,200	2,930
Dividend to shareholders in the company	-	-	-	(5,255)	-	-	-	-	-	-	-	(5,255)	-	(5,255)
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(12,330)	(12,330)
Purchase of treasury shares in subsidiary companies	-	-	-	(881)	-	-	-	-	117	-	-	(764)	(33)	(797)
Initially consolidated company	-	-	-	-	-	-	-	-	-	-	-	-	348	348
Issuance of shares to non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	593	593
As of December 31, 2015	29,640	14,344	(48,001)	303,339	125	(47,760)	3,003	(842)	(82,981)	7,425	8,824	187,116	203,344	390,460

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

ELCO LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS

CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		Audited
Cash flows from operating activities:					
Net income	91,125	17,499	9,468	7,055	28,076
Adjustments required in order to present the cash flows from operating activities (Appendix A')	(132,699)	(44,907)	(14,768)	6,065	31,900
Net cash generated (absorbed) by operating activities	<u>(41,574)</u>	<u>(27,408)</u>	<u>(5,300)</u>	<u>13,120</u>	<u>59,976</u>
Cash flows from investment activities:					
Acquisition of fixed assets and intangible assets	(19,399)	(13,812)	(8,887)	(8,051)	(24,581)
Acquisition and construction of income generating assets	(2,746)	(4,659)	(1,869)	(3,713)	(10,737)
Initially consolidated companies and activities (Appendix B)	(535)	(172)	1,935	-	(6,195)
Investment in shares of affiliated and other companies	(30,387)	(8,695)	(12,257)	(6,729)	(21,399)
Sale of short-term investments, net	(9,790)	(14,149)	(9,129)	(17,076)	(5,676)
Consideration from the disposal of fixed and income-generating assets and investments	346,886	72,414	967	52,139	104,214
Collection (extension) of long-term loans and deposits	130	(5,157)	2	(6,315)	1,342
Net cash generated (absorbed) by investment activities	<u>284,159</u>	<u>25,770</u>	<u>(29,238)</u>	<u>10,255</u>	<u>36,968</u>
Cash flows from financing activities:					
Dividend paid to shareholders in the company	-	(2,600)	-	(2,600)	(5,255)
Dividend to non-controlling interests	(9,708)	(8,076)	(8,021)	(7,718)	(12,330)
Issuance of bonds	40,219	87,156	21,685	39,125	87,156
Repayment of long-term liabilities	(293,153)	(151,299)	(132,944)	(69,346)	(223,636)
Receipt of long-term liabilities	11,830	42,158	11,188	15,865	75,012
Short-term bank credit, net	(17,351)	(19,384)	2,750	1,914	(26,035)
Acquisition of non-controlling interests	(2,015)	-	-	-	-
Issuance of shares to non-controlling interests in consolidated companies	1,213	2	1,086	2	593
Acquisition of treasury shares in the company and in consolidated companies	-	(132)	-	-	(797)
Net cash absorbed by financing activities	<u>(268,965)</u>	<u>(52,175)</u>	<u>(104,256)</u>	<u>(22,758)</u>	<u>(105,292)</u>
Translation differences in respect of cash and cash equivalents balances	<u>(6,770)</u>	<u>(1,135)</u>	<u>(5,185)</u>	<u>172</u>	<u>(956)</u>
Increase (decrease) in cash and cash equivalents	<u>(33,150)</u>	<u>(54,948)</u>	<u>(143,979)</u>	<u>789</u>	<u>(9,304)</u>
Balance of cash and cash equivalents at the beginning of the period	<u>200,057</u>	<u>209,361</u>	<u>310,886</u>	<u>153,624</u>	<u>209,361</u>
Balance of cash and cash equivalents at the end of the period	<u>166,907</u>	<u>154,413</u>	<u>166,907</u>	<u>154,413</u>	<u>200,057</u>

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

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

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		Audited
Income and expenses not involving cash flows:					
The Group's share of the profits of companies accounted for at equity, net	(13,060)	(25,833)	(5,176)	(15,624)	(4,748)
Dividends and interest received from companies accounted for at equity	12,390	6,338	996	4,465	22,717
Adjustment of fair value and the results of the disposal of income-generating assets, net	(458)	1,771	(493)	312	2,076
Depreciation and amortization	11,434	10,519	5,990	5,696	23,083
Deferred taxes, net	(4,552)	10,701	(6,750)	7,293	(12,699)
Increase (decrease) in employee benefit liabilities	142	27	58	210	617
Capital gain on the sale of fixed assets and other investments	(75,629)	(869)	(994)	(550)	(1,940)
Gain on the re-measurement of an investment in an initially consolidated investee company	(1,779)	-	-	-	(808)
Revaluation of long-term receivable and liabilities, net	(1,761)	(351)	(1,460)	6,498	(1,747)
Increase (decrease) in the value of short-term investments	(493)	(68)	(1,114)	(68)	(493)
Cost of share-based payment	1,221	1,240	628	863	2,930
Changes in asset and liability items:					
(Increase) decrease in inventory and inventory of real estate	(7,853)	(17,011)	2,867	(3,529)	11,135
Increase in trade receivables	(45,444)	(10,743)	(37,558)	6,207	(11,369)
Increase in other accounts receivable	(12,572)	(32,392)	(2,252)	(24,574)	(30,867)
Increase (decrease) in suppliers and providers of services	26,189	(1,249)	21,921	4,838	6,393
Increase (decrease) in other accounts payable	(20,474)	13,013	8,569	14,028	27,620
	<u>(132,699)</u>	<u>(44,907)</u>	<u>(14,768)</u>	<u>6,065</u>	<u>31,900</u>

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

ELCO LIMITED**CONSOLIDATED STATEMENTS OF CASH FLOWS**
CONVENIENCE TRANSLATION INTO US DOLLARS (in thousands)**Appendix B' - Investment in initially consolidated companies and activities**

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		Audited
Working capital, net (except cash and cash equivalents)	2,372	209	1,955	-	(3,554)
Investment in marketable securities	-	(556)	-	-	(582)
Fixed assets	(194)	(525)	-	-	(1,137)
Investment in entities accounted for at equity	1,940	-	-	-	347
Intangible assets	(8,297)	-	(449)	-	(6,733)
Goodwill	(4,156)	(2,799)	-	-	(5,632)
Deferred taxes	1,998	91	36	-	2,808
Non-current liabilities	276	3,060	193	-	1,900
Payables for conditional consideration	-	-	-	-	2,246
Liability for put option	3,547	-	-	-	2,986
Non-controlling interests	-	348	-	-	348
Gain on entry to consolidation	200	-	200	-	-
Gain as a result of an increase to control	1,779	-	-	-	808
	<u>(535)</u>	<u>(172)</u>	<u>1,935</u>	<u>-</u>	<u>(6,195)</u>

Appendix C' - Further information on cash flows

	Six months ended		Three months ended		Year ended
	June 30		June 30		December 31
	2016	2015	2016	2015	2015
	Unaudited		Unaudited		Audited
Cash paid in the period for:					
Interest	<u>25,450</u>	<u>19,856</u>	<u>20,223</u>	<u>13,583</u>	<u>39,820</u>
Taxes on income	<u>5,709</u>	<u>6,757</u>	<u>3,732</u>	<u>3,159</u>	<u>9,453</u>
Cash received for:					
Interest	<u>1,016</u>	<u>995</u>	<u>237</u>	<u>530</u>	<u>2,818</u>
Taxes on income	<u>1,678</u>	<u>385</u>	<u>382</u>	<u>381</u>	<u>3,944</u>

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

NOTES TO THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Note 1 - General

These financial statements have been prepared in a condensed format as at June 30, 2016 and for the period of six months and of three months ended on that date (hereinafter - interim consolidated financial statements).

The interim financial statements should be read together with the Company's annual financial statements as of December 31, 2015 and the year ended on that date and the accompanying notes thereto (hereinafter – the annual consolidated financial statements).

Note 2 - Significant Accounting Policies

A. The format for the preparation of the interim consolidated financial statements

The Interim Consolidated Financial Statements have been prepared in accordance with IAS 34 "Financial Reporting for Interim Periods", and also in accordance with the disclosure requirements in accordance with section D of the Securities Regulations (Periodic and Immediate Reports) - 1970.

B. The accounting policies that have been implemented in the preparation of the interim consolidated financial statements are consistent with those that were implemented in the preparation of the annual consolidated financial statements.

C. Convenience translation

The attached Financial Statements in US Dollars are a translation of the statements as prepared in New Israeli Shekels ("NIS" or "Shekel") at the rate of exchange of the Shekel to the US Dollar prevailing on June 30, 2016 (NIS 3.846 = 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.