ELECTRA LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

(CONVENIENCE TRANSLATION INTO U.S. DOLLARS)

E L E C T R A L I M I T E D

Consolidated Financial Statements

As of December 31, 2016

C o n t e n t s

**THE BOARD OF DIRECTORS OF ELECTRA LTD.
HEREBY PRESENTS THE REPORT OF THE BOARD OF DIRECTORS ON THE STATE OF THE AFFAIRS OF THE COMPANY AND ITS CONSOLIDATED COMPANIES ("THE GROUP") FOR THE YEAR ENDED DECEMBER 31, 2016**

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 projects and infrastructure projects abroad segment; the facility management 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. For details see section 2 of the report on the description of the entity's business as at December 31, 2016.

For information regarding the economic environment and the impact of external factors on the Group's operations, see section 2 of the report on the description of the entity's business.

2. Financial position

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

	31.12.2016		31.12.2015		
	Total	**%**	**Total**	**%**	**%**
Current assets	734,867	67.9	676,426	68.0	8.6
Non-current assets	347,609	32.1	318,744	32.0	9.1
Current liabilities	597,499	55.2	531,017	53.4	12.5
Non-current liabilities	256,734	23.7	244,353	24.5	5.1
Equity	228,243	21.1	219,800	22.1	3.8
Total of the statement of financial position	1,082,476	100.0	995,170	100.0	8.8

The Group's assets in the consolidated statement of financial position at the end of the period amounted to approximately US$ 1,083 million, compared to approximately US$ 995 million at the end of 2015, an increase of approximately 9%.

The surplus of the current assets over the current liabilities amounted to approximately US$ 137 million, compared with approximately US$ 145 million at the end of 2015.

The current ratio is 1.23 as of December 31, 2016, compared to 1.27 the end of 2015.

For details regarding the extent of the credit from banking corporations and others, loans to finance entrepreneurial real estate and bonds, see Notes 17, 18, 21 and 22, respectively.

3. Equity

As of the date of the statement of financial position, equity amounts to approximately US$ 228 million, compared with approximately US$ 220 million at the end of 2015. The change in the equity as of the date of the statement of financial position derives primarily from the net income for the year in an amount of approximately US$ 40.4 million, less the impact of adjustments deriving from the translation of financial statements of foreign operations in an amount of US$ 2.6 million, deriving from the impact of the change in the exchange rates in relation to the Shekel of the currencies in the markets in which the Group operates (primarily the Naira), and less dividends of approximately US$ 25 million, to shareholders in the Company and dividends of approximately US$ 4 million to non-controlling interests. For additional details, see the consolidated statements of changes in shareholders' equity, which form part of the consolidated annual financial statements.

4. Operating results

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

	Q 10-12/16	Q 07-09/16	Q 04-06/16	Q 01-03/16	Q 10-12/15
Revenues from the performance of works and the provision of services	340,675	336,060	326,232	322,117	308,357
Cost of works and services	(313,300)	(313,885)	(301,733)	(303,066)	(287,214)
Gross profit	**27,375**	**22,175**	**24,499**	**19,051**	**21,143**
Administrative and general expenses	(12,001)	(10,896)	(10,563)	(10,605)	(10,538)
Selling and marketing expenses	(1,274)	(829)	(808)	(795)	(1,272)
The Company’s share of profits of companies, accounted for at equity, net	627	1,897	1,681	4,168	3,869
Other income (expenses), net	(1,207)	9,393	365	5,644	(1,095)
Operating income	**13,520**	**21,740**	**15,174**	**17,463**	**12,107**
Financing expenses, net	(2,364)	(1,343)	(1,199)	(2,489)	(1,662)
Income before taxes on income	**11,156**	**20,397**	**13,975**	**14,974**	**10,445**
Taxes on income	(2,065)	(5,412)	(4,536)	(4,060)	(2,467)
Income from continuing operations	**9,091**	**14,985**	**9,439**	**10,914**	**7,978**
Income (loss) from discontinued operations, net	(898)	(2,982)	(19)	(144)	201
Net income for the period	**8,193**	**12,003**	**9,420**	**10,770**	**8,179**
Attributable to:					
Shareholders in the Company	7,304	11,712	9,029	10,201	8,129
Non-controlling interests	889	291	391	569	50
	8,193	**12,003**	**9,420**	**10,770**	**8,179**

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

The Group's revenues in 2016 (hereinafter - the reporting period) amounted to US$ 1,325 million compared with US$ 1,192 million in the previous year, an increase of approximately 11%. The increase in the revenues in the reporting period relates primarily to the construction and infrastructure projects in Israel segment and from an increase in the facility management segment (see the additional details in section 12 below).

The revenues from the performance of works and the provision of services do not include additional revenues of approximately US$ 184 million (previous year approximately US$ 216 million) of entities accounted for at equity, net.

The revenues in the fourth quarter of 2016 amounted to US$ 341 million compared with US$ 308 million in the corresponding period in the previous year, an increase of approximately 10%.

6. Gross profit

The gross profit in the reporting period amounted to US$ 93 million, compared with US$ 88 million in the previous year.

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

The Company’s share of the profits of entities that are accounted for at equity, net amounted to approximately US$ 8.4 million in the reporting period, as compared with approximately US$ 13.2 million in the previous year.

The decrease in the profits of the entities that are accounted for at equity derived from the range of activities that the Company is engaged in through those companies, primarily in the construction and infrastructure projects abroad segment, from a write down of US$ 1.6 million in respect of land in Latvia, and from the impact of embedded derivatives in entities accounted for at equity, as described below:

Within the context of a commitment for the execution of the Training City Project and the Gilboa pumped storage project ("The Projects"), various entities that are connected to the projects have signed on commitment agreements with the commissioners of the work and various suppliers, some of which are linked to a basket of currencies, indices and interest rates.

As a result, and in the light of the provisions of IAS 39, the embedded derivatives that form part of these commitment agreements have been separated, and they are measured in each period at fair value through profit or loss. As at 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 US$ 1.5 million in respect of them in the reporting period (both in respect of the EPC entities and also in respect of the SPC entities), as compared with a net of tax gain of US$ 1 million in the previous year.

8. Other income (expenses), net

Other income, net amounted to approximately US$ 14.2 million in the reporting period, as compared with other expenses, net of approximately US$ 0.6 million in the corresponding period in the previous year. The increase in the income derives primarily from the recognition of a profit of approximately US$ 9.1 million deriving from the sale of 49% of the Company’s holding in an entity that serves as a concession holder in the Gilboa pumped storage project to InfraRed, a foreign investment fund (see Note 11E(4) to the consolidated financial statements for additional details) as well as from the recognition of a profit of US$ 4.8 million from the sale of the Company's rights in land with a registered area of approximately 10 thousand Sq.m. in Rishon Le'Zion (see Note 26B(4) to the consolidated financial statements for additional details) and an amount of approximately US$ 0.7 million in respect of the sale of a building in Haifa.

9. Financing expenses, net

Financing expenses, net amounted to approximately US$ 7.4 million in the reporting period, as compared with approximately US$ 7.8 million in the previous year. The decrease in the financing expenses derived primarily from a decrease in financing expenses in respect of adjustments to a financial liability with demand characteristics in an amount of US$ 1 million as compare with US$ 4.2 million in the comparative period in the previous year and on the other hand, there were financing expenses deriving from updates to the value of forward transactions on foreign currency.

10. Income from continuing operations

The Group's net income amounted to approximately US$ 44.4 million in the reporting period, as compared with approximately US$ 37.7 million in the previous year.

11. Income from discontinued operations, net

During the course of the period it was decided to discontinue the trading operations in a subsidiary company, which was included in the facility management and trading segment. In light of this, the results of the trading operations have been classified as discontinued operations as from the third quarter of 2016. As a result of the aforesaid and the recording of provisions for the closure of operations, the Company recorded a net of tax loss of US$ 4 million in the reporting period. See Note 30 to the consolidated financial statements for additional details.

12. Report in respect of business segments

1. **Revenues:** (In US$ thousands)

	For the year ended December 31		
	2016	2015	2014
Construction and infrastructure projects in Israel	888,380	821,221	688,036
Construction and infrastructure projects abroad	48,249	50,832	61,349
Facility management	383,252	308,641	240,528
Development & construction of entrepreneurial real estate	8,723	14,273	9,349
Concessions	3,995	3,721	3,862
Consolidation adjustments	(7,515)	(6,524)	(5,912)
Total	**1,325,084**	**1,192,164**	**997,212**

A. Construction and infrastructure projects in Israel

The revenue turnover in the reporting period amounted to approximately US$ 888 million (approximately 67% of the revenues) as compared with approximately US$ 821 million (approximately 69% of the revenues) in the previous year, an increase of approximately 8%, which derives from most of the operations in this segment, and primarily from an increase in the operations of Electra Construction Ltd..

B. Construction and infrastructure projects abroad

The revenue turnover in the reporting period amounted to approximately US$ 48 million (approximately 4% of the revenues) as compared with approximately US$ 51 million (approximately 4% of the revenues) in the previous year, a decrease of approximately 5%. The decrease in the revenue turnover derived primarily from the impact of the economic situation in Africa as a result of the decline in the prices of oil, the erosion of the exchange rates of the local currency (primarily the Naira) as well as slow-down in the pace of progress of the projects in Africa, which was countered by the initial consolidation of the operations of Electra Poland in the reporting period.

C. Facility management

The revenue turnover in the reporting period amounted to approximately US$ 383 million (approximately 29% of the revenues) as compared with approximately US$ 309 million (approximately 26% of the revenues) in the previous year, an increase of approximately 24%, which derived primarily from the consolidation of the operations in the facility management field of Electra – Danko, which operates in the refurbishments and project finishing field and Tavas Cleaning, Guarding and Security Services Ltd., which were partially included in the comparative periods in the previous year, from the initial consolidation of Electra Security, which was acquired the activities of the Patrolling Unit for Banks Security and from an increase in most of the Group's operations in this segment.

D. Development & construction of entrepreneurial real estate

The revenues turnover in the reporting period amounted to approximately US$ 9 million (approximately 1% of the revenues) as compared with approximately US$ 14 million (approximately 1% of the revenues) in the previous year, a decrease of approximately 39% deriving primarily from the recognition of higher income from the delivery of rights in the Gymnasia Tower, together income from management fees in respect of the WP project in the comparative period in the previous year.

E. Concessions

The revenue turnover in the reporting period and in the previous year relates primarily to the operation of a concession in the waste water treatment field and amounted to approximately US$ 4 million in the reporting period, as compared with approximately US$ 3.7 million in the previous year.

2. Segmental operating income (loss) (in US$ thousands)

	For the year ended December 31		
	2016	2015	2014
Construction and infrastructure projects in Israel	30,823	27,814	31,641
Construction and infrastructure projects abroad	1,284	6,375	6,141
Facility management	34,510	29,792	27,602
Development & construction of entrepreneurial real estate	4,447	(258)	1,419
Concessions	9,746	5,748	1,434
Consolidation adjustments	430	-	-
Total	**81,240**	**69,471**	**68,237**

A. Construction and infrastructure projects in Israel

The operating income in the reporting period amounted to approximately US$ 30.8 million (approximately 38% of segmental operating income) as compared with approximately US$ 27.8 million (approximately 40% of segmental operating income) in the previous year, an increase of approximately 11%. The increase in the operating income derived primarily from projects as a main contractor for construction and projects as the main contractor for infrastructures.

B. Construction and infrastructure projects abroad

The operating income in the reporting period amounted to approximately US$ 1.3 million (approximately 2% of segmental operating income) as compared with approximately US$ 6.4 million (approximately 9% of segmental operating income) in the previous year, a decrease of approximately 80%. The decrease derived primarily from the worsening of the economic situation in Africa in light of the decline in the prices of oil, which led to the erosion of the exchange rates of the local currency (primarily the Naira) as well as slow-down in the pace of progress of the projects in Africa, which was countered by the initial consolidation of the operations of Electra Poland in the reporting period.

C. Facility management

The operating income in the reporting period amounted to approximately US$ 35 million (approximately 42% of segmental operating income) as compared with US$ 30 million (approximately 43% of segmental operating income) in the previous year, an increase of approximately 16%, which derived primarily from the consolidation of the operations in the facility management field of Electra – Danko, which operates in the refurbishments and project finishing field and Tavas Cleaning, Guarding and Security Services Ltd., which were partially included in the comparative periods in the previous year, from the initial consolidation of Electra Security, which was acquired the activities of the Patrolling Unit for Banks Security and from an increase in most of the Group's operations in this segment.

D. Development & construction of entrepreneurial real estate

The operating income in the reporting period amounted to approximately US$ 4.4 million as compared with an operating loss of approximately US$ 0.3 million in the previous year.

The increase derived primarily from the recognition of a profit of approximately US$ 4.8 million from the sale of the Company's rights in land in Rishon Le'Zion and from a profit of approximately US$ 0.7 million from the sale of a building in Haifa.

E. Concessions

The operating income in the reporting period amounted to approximately US$ 9.7 million as compared with operating income of approximately US$ 5.7 million in the previous year. The increase in the operating income in the reporting period derives primarily from a profit of approximately US$ 9.1 million deriving from the sale of 49% of the Company’s holding in an entity that serves as a concession holder in the Gilboa pumped storage project to InfraRed, a foreign investment fund (see Note 11E(4) to the consolidated financial statements for additional details) and from financing income deriving from progress of a financial asset in a BOT project, which was offset by a net loss deriving from the updating of the fair value of embedded derivatives that were recorded under the Company’s share of the profits of entities accounted for at equity in an amount of approximately US$ 0.2 million, as compared with a profit of approximately US$ 3.8 million deriving from the impact of embedded derivatives in the comparative period in the previous year.

13. Orders backlog

The Group's backlog of orders as at December 31, 2016 amounted to approximately US$ 2,543 million, compared with approximately US$ 2,442 million at the end of 2015. The backlog as of December 31, 2016 includes the Group's share of affiliated companies and companies under joint control, which are accounted for at equity, in an amount of approximately US$ 276 million (December 31, 2015 – US$ 371 million).

	2016				2015			
	Construction and infrastructure projects in Israel segment	Construction and infrastructure projects abroad segment	Facility management segment *)	Total	Construction and infrastructure projects in Israel segment	Construction and infrastructure projects abroad segment	Facility management segment	Total
	(In US$ millions)							
The distribution of the orders backlog by operating segment								
Without affiliated companies	1,593 **)	93	581	2,267	1,549	92	430	2,071
In respect of affiliated companies	98	2	176	276	164	24	183	371
Total	**1,691**	**95**	**757**	**2,543**	**1,713**	**116**	**613**	**2,442**
The distribution of the orders backlog without the Company's share of affiliated companies								
For performance in 2017	862	52	357	1,271				
For performance in 2018 and thereafter	731	41	224	996				
Total	**1,593**	**93**	**581**	**2,267**				

*) The orders backlog in this segment is comprised primarily of commitment contracts, which are generally arranged as service contracts for renewable periods, where the customer has the right, for a number of years, to terminate the arrangement at any stage. In addition, the orders backlog includes a backlog relating to the operation of BOT projects and the operation of waste water treatment plants for long periods of time in an amount of approximately US$ 264 million, of which approximately US$ 19 million will be performed in 2017.

**) The orders backlog includes a backlog of approximately US$ 140 million in respect of a project for the planning, construction and maintenance of a campus for Teva Pharmaceutical Industries Ltd., in respect of which the Company received an update from Teva after the reporting date regarding its decision to freeze the project at this stage while examining whether and how to continue the project.

14. Liquidity and sources of finance

The Group's liquid means (cash and cash equivalents and marketable securities) amounted to approximately US$ 180 million as of December 31, 2016, compared with approximately US$ 165 million as of December 31, 2015.

The change in the Group's liquid means in the year 2016 derived, inter alia, from cash of approximately US$ 58 million generated by continuing operating as compared with US$ 24 million in the previous year.

Net cash absorbed by investment activities amounted to approximately US$ 38 million in the year 2016, compared with net cash of approximately US$ 10 million absorbed by investment activity in the previous year, and included primarily the investment of approximately US$ 6 million in marketable securities, the acquisition of consolidated companies in an amount of approximately US$ 8 million, the purchase of fixed and intangible assets in an amount of approximately US$ 22 million and an increase in investments, restricted cash and a deposit in trust, net, in an amount of approximately US$ 14 million, which was offset by consideration of approximately US$ 9 million from the disposal of fixed assets.

The cash absorbed by financing activities amounted to approximately US$ 0.9 million in the year 2016, by comparison with net cash of approximately US$ 18 million generated by financing activity in the previous year and included primarily the issuance of bonds in an amount of approximately US$ 55 million, and on the other hand, the repayment of long-term loans and bonds in an amount of approximately US$ 35 million and the payment of a dividend in an amount of approximately US$ 18 million.

15. 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.

16. Events after the reporting period

A. See Note 38 to the consolidated financial statements as at December 31, 2016.

B. During the period from the date of the statement of financial position (December 31, 2016) to a time shortly before the publication of the financial statements (March 21, 2017), changes occurred in the exchange rates in relation to the Shekel, including in respect of the currencies in the countries in which the Company operates.

The following are details of the changes, as aforesaid (from 31.12.2016 to 21.3.2017):

Currency	As a %
US Dollar	(6.01)
Euro	(3.39)
Russian Ruble	(0.47)
Nigerian Naira	(6.77)

Since a significant portion of the Company’s revenues 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 balance sheet (and this also includes the shareholders' equity). Together with this, the impact of the exchange rates on the business results in the first 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 (March 31, 2017).

17. Details regarding the exposure to market risks and their management

A. The persons responsible for the management of market risks in the Company

The management of the Group's market risks is performed by the Company's Chief Executive Officer and Chief Financial Officer. For details regarding the Company's Chief Executive Officer and Chief Financial Officer, see Regulation 26A in the Chapter containing additional details on the entity.

B. Description of the market risks

For details regarding the risk factors to which the Group is exposed, see Section 69 in the Chapter containing a description of the entity's business as of December 31, 2016.

C. The entity's policy for the management of the market risks and the supervision thereof

The means that the Company takes in order to avoid its exposure to market risks are as follows:

1. The Company conducts a periodic survey of risks and the definition of the managerial responsibility for the management of the significant risk.
2. The Company is in the habit of making use of currency options and other derivatives in order to reduce the exposure to changes in exchange rates. These transactions are transacted with large financial entities in Israel and abroad. The Company retains internal documentation regarding the designation of the financial instruments for exposures that indicate a connection between the instruments and the exposures and the need for recording them as transactions for hedging purposes. The cash balances that arise from time to time are deposited in banks having a high financial rating and in marketable securities.
3. The Company's management reports to the Board of Directors from time to time on the market risks and the Company's exposure to them. The means taken in order to reduce the risks are brought to the knowledge of the Board of Directors.
4. The Group maintains supervisory measures over the exercise of its policy in the field of the management of risks by means of reports within the context of the meetings of the Board of Directors, insofar as these may be required.
5. During the reporting year, no significant events occurred that were significant exceptions from the entity's market risks management policy.

18. Self-purchase programs

A. For additional details regarding the self-purchase plan for regular shares from the year 2011, see Note 27B to the financial statements and the immediate report that was published by the Company on March 14, 2011 (Document Number 2011-01-078342). On November 16, 2015, the Company's Board of Directors re-examined the Company's compliance with the distribution tests and confirmed the continuation of the execution of the self-purchases in accordance with the original decision.

B. On March 19, 2015 the Company's Board of Directors approved a program for the self-purchase of bonds, in an amount of up to US$ 26 million in replacement of the previous program, dated August 22, 2011. For additional details, see the immediate report, which the Company published on March 19, 2015 (Document Number 2015-01-055612).

19. Directors having accounting and financial skills

The minimum number of directors having accounting and financial skills that is appropriate for the Company has been determined to be one director. This determination has been made taking into account the size of the Company and of the Board of Directors, the Company's fields of activity and the complexity thereof.

The members of the Company's board of Directors who have accounting and financial skills are: Ehud Ratzabi, Irit Stern and Ariel Even. See Regulation 26 in the additional details on the entity for details in respect of the said members of the Board of Directors, in reliance upon which the Company views them as having accounting and financial skills.

20. Independent directors

As of the time of this report the Company has not adopted any provisions in its articles of association in respect of the rate of independent directors within the definition of that term in section 1 of the Companies Law – 1999.

21. Disclosure in respect of the Internal Auditor

Details in respect of the internal auditor

1. The Chief Internal Auditor in the entity is Mr. Hillel Lavie and he has held office since 01.04.1994.
2. The Internal Auditor complies with the provisions of section 3 (A) of the Internal Audit Law – 1992 ("**The Internal Audit Law**").
3. The Internal Auditor complies with the provisions of section 146 (B) of the Companies Law and the provisions of section 8 of the Internal Audit Law.
4. As of the date of this report, the Internal Auditor does not hold any securities in the Company or in any body that is connected to it. In 2016, the Internal Auditor was awarded 39,418 options in the parent company Elco Ltd. In the Company's Board of Directors' assessment, there is nothing in the holding of such securities that influences the Internal Auditor's work.
5. The Internal Auditor is employed by the parent company - Elco Ltd. However, in the assessment of the Board of Directors, there is nothing in this employment that creates a conflict of interests with his role as Internal Auditor.
6. The Internal Auditor is not an employee of the Company.
7. The Internal Auditor is a salaried employee of the parent company – Elco Ltd. and holds office as the internal auditor in Elco Ltd. and its subsidiary companies in the Group and this includes the Company and its subsidiary companies.

The manner of the appointment

Mr. Hillel Lavie was appointed as the Company’s Internal Auditor in accordance with a recommendation of the Audit Committee on February 21, 1994 and a decision by the Company's Board of Directors on March 3, 1994. The appointment was approved against the background of his appointment as the internal auditor of the Elco Group and also against the background of his education, his skills and the experience he has gained over many years.

The identity of the person to whom the Internal Auditor is subordinated

The person in the organization to whom the internal auditor is subordinated is the Chairman of the Board of Directors.

The work program

1. The work plan is bi-annual and as from 2017, it is expected to be tri-annual. The internal audit work plan for the Company and the subsidiary companies is determined, inter alia, in accordance with the following considerations: The coverage of the Company's main fields of activity, the focuses of risk and exposure that are known to the Internal Auditor and the management, the potential for savings and increased efficiency, cycles and the performance of repeat audits in order to monitor the correction of weaknesses and the implementation of recommendations. The audit work plan also includes the entities in which the Company has significant holdings.
2. The audit work plan is presented for review and approval by the company's Audit Committee and its Board of Directors.
3. The Internal Auditor can exercise judgment in diverging from the work program where the need arises.
4. An audit report, which was distributed by the Internal Audit during the reporting period related to significant transactions of the entity, primarily in 2015.

Overseas audits and the audit of investee entities

The work program also relates to significant entities that are held by the entity, including those that are held overseas. The audit is performed by the Internal Auditor and a team that is subordinated to him professionally and which is guided by him.

The scope of the activity

1. The following is an estimation of the annual audit that has been performed by the Chief Internal Auditor and the team of professional staffs who are subordinated to him and who are guided by him:

	Estimated scope of the hours worked		
	In the Company	**In the Company's investee entities**	**Total**
In respect of activity in Israel	1,060	1,990	3.050

2. The scope of the work is determined in accordance with the needs of the audit plan, and in accordance with the Internal Auditor's recommendation.

3. The audit work plan is bi-annual (and as from 2017, it is expected to be a tri-annual plan) and the actual annual volume of hours varies from year to year, with the objective of meeting the auditing needs.

The conduct of the audit

1. The Internal Auditor conducts the audit in accordance with generally accepted professional standards as stated in section 4 (B) of the Internal Audit Law and the professional guidelines that have been approved and published by the Institute of Internal Auditors in Israel, and as stated in the Companies Law.
2. To the best of the Company's Board of Directors' knowledge, in reliance on a declaration by the Internal Auditor, the Internal Auditor meets the requirements that have been set in the professional standards.

Access to information

The Internal auditor is given free, perpetual and unrestricted access to documents and information that are held by the Company and in the entities that it controls, inter alia, by means of visits to the company's assets as necessary and including the receipt of information from the information systems and financial data, as stated in section 9 of the Internal Audit Law.

The report by the Internal Auditor

1. The Internal Auditor routinely presents written reports on his findings, from time to time and in accordance with the subject for auditing that are audited during the course of the year. The audit reports are presented, inter alia, to the Chairman of the Board of Directors, the Chairman of the Audit Committee, the members of the Audit Committee and the Chief Executive Officer of the Company and accordingly, meetings are held in respect of the findings in the appropriate bodies.

2. During the course of the year 2016, 3 meetings of the Audit Committee were held, in which the Internal Auditor's findings were discussed, on the following dates: 26.07.2016, 30.11.2016 and 22.12.2016 in connection with audit reports that were presented in the reporting year and in the previous year.

The evaluation of the activities of the Internal Auditor by the Board of Directors

In the opinion of the Company's Board of Directors, the scale, the nature and the continuity of the Internal Auditor's activities and his work plan are reasonable in the circumstances and they can achieve the internal audit objectives in the entity.

Remuneration

1. The Internal auditor is a salaried employee of the parent company Elco Ltd. and his services are made available to the Company within the context of the management agreement between the Company and Elco Ltd.. As aforesaid, as part of his terms of employment, the Internal Auditor has receive options issued by Elco Ltd.
2. In the opinion of the Board of Directors, the remuneration of the Internal Auditor is not a factor that affects his professional judgment.

22. Donations

Social involvement and contribution to the community

We in the Electra Group believe in cooperation between business and the community and we take action in order to develop and solidify long-term connections with the community in which we live and work. We act in the community, both by means of the donation of financial resources and also by means of the personal involvement of our employees. In 2016, 1,600 employees volunteered on behalf of the Group. During the course of the year all of the employees in the Electra Group are invited to participate in activities, to lead cooperations and to participate in activities and to take part in the development in the process of social involvement.

The Electra Group has nailed the issue of the promotion of people with handicaps by means of physical activity to its mast. Through the Zionism 2000 Association, which accompanies the Group, we have joined with a number of community partnerships that are active for handicapped people, inter alia: the Special Olympics Association, the Association of Community Centers, and the Graduates Center of Ilan in Tel-Aviv. The contribution made by social involvement is mutual: For the Electra Group, from the perspective of connection to its values, the strengthening of connections with the community and business partners and an improvement of the social environment in which it operates, and for the employees, experiencing a feeling of substantial satisfaction giving expression to various skills and a feeling of belonging and identification with the Group.

Donations

In 2016, the Group donated an amount of US$ 115 thousand in Israel. The donations are directed towards charitable institutions. The following is a report regarding donations to a particular body in an amount exceeding US$ 13 thousand in the reporting year:

The Maor Foundation – US$ 33 thousand.

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**

March 29, 2017

In this Report of the Board of Directors for the year ended December 31, 2016, 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 December 31, 2016 (US$ 1.- = NIS 3.845).

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Auditors' report to the shareholders of Electra Limited
Regarding the Audit of Components of the Internal Control over Financial Reporting
Pursuant to section 9b (c) of the securities regulations (periodic and immediate reports) - 1970

We have audited the components of the internal control over financial reporting of Electra Ltd. and its subsidiaries (collectively "the Company") as of December 31, 2016. Control components were determined as explained in the following paragraph. The Company's board of directors and management are responsible for maintaining effective internal control over financial reporting and for their assessment of the effectiveness of the components of the internal control over financial reporting included in the accompanying periodic report for said date. Our responsibility is to express an opinion on the company's components of internal control over financial reporting based on our audit.

The components of internal control over financial reporting, which were audited by us, were determined in conformity with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "Audit of components of internal control over financial reporting" and the amendments thereto (hereinafter: "Auditing Standard 104"). These components consist of: (1) entity level controls, including financial reporting preparation and close process controls and information technology general controls ("ITGCs"); (2) controls over the recording of income from works under construction contracts; (3) controls over inventory of real estate (collectively "the audited components of control").

We conducted our audits in accordance with Auditing Standard 104. That standard requires that we plan and perform the audit to identify the audited control components and obtain reasonable assurance about whether these control components have been effectively maintained in all material respects. Our audit includes the obtaining an understanding of internal control over financial reporting, identifying the audited control components, assessing the risk that a material weakness exists, regarding the audited control components and testing and evaluating the design and operating effectiveness of the audited control based on assessed risk. Our audit of these control components also included performing such other procedures as we considered necessary in the circumstances. Our audit only addressed the audited control components, as opposed to internal control over all the material processes in connection with financial reporting and therefore, our opinion addresses solely the audited control components. Moreover, our audit did not address any reciprocal effects between the audited control components and unaudited once and accordingly, our opinion does not take any such possible effects into account. We believe that our audit provides a reasonable basis for our opinion within the context that is described above.

Because of its inherent limitations, internal control over financial reporting as a whole, and specifically the components therein, may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in circumstances or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company effectively maintained, in all material respects, the audited control components as of December 31, 2016. We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, and our opinion, dated March 29, 2017 included an unqualified opinion on those financial statements.

Tel-Aviv

March 29, 2017

KOST FORER GABBAY & KASIRER
Certified Public Accountants

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Auditors' report to the shareholders of Electra Limited

We have audited the accompanying consolidated statements of financial position of Electra Limited ("the Company") as of December 31, 2016 and 2015 and the consolidated statements of profit or loss, of comprehensive income, of changes in equity and of cash flows for each of the three years in the period ended on December 31, 2016. These financial statements are the responsibility of the Company's board of directors and management. Our responsibility is to express an opinion on these financial statements based on our audits.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 7% and approximately 4% of the total consolidated assets as of December 31, 2016 and 2015, respectively, and whose revenues constitute approximately 8%, approximately 6% and approximately 4% of the total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Furthermore, we did not audit the financial statements of certain entities accounted for at equity, the investment in which amounted to approximately US$ 69,783 thousand, approximately US$ 50,035 thousand as of December 31, 2016 and 2015, respectively, and the Company's share of their profits amounted to approximately US$ 1,196 thousand, approximately US$ 2,328 thousand and US$ 2,276 thousand for each of the years ended December 31, 2016, 2015 and 2014, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards in Israel, including those prescribed by the Auditors' Regulations (Auditor's Mode of Performance), 1973. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the company's board of directors and management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

The attached financial statements in US Dollars are a convenience translation of the statements as prepared in New Israeli Shekels at the rate of exchange of the Shekel into US Dollars prevailing on December 31, 2016 (see Note 2 to the financial statements).

In our opinion, based on our audit and the reports of the other auditors, the abovementioned consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated companies as of December 31, 2016 and 2015 and the results of their operations, changes in their equity and their cash flows for each of the three years ended in the period December 31, 2016 and this in accordance with International Financial Reporting Standards (IFRS) and the provisions in accordance with the Securities Regulations (Annual Financial Statements) - 2010.

We have also audited components of internal control over financial reporting of the Company as of December 31, 2016, in accordance with Auditing Standard 104 of the Institute of Certified Public Accountants in Israel "The audit of components of internal control over financial reporting" and our report, dated March 29, 2017 included an unqualified opinion on the effective maintenance of those components.

Tel-Aviv

March 29, 2017

KOST FORER GABBAY & KASIRER
Certified Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	December 31	
	2016	2015
	U.S. Dollars in thousands	
Current assets		
Cash and cash equivalents	167,657	157,223
Investments, restricted cash and deposit in trust	46,052	29,434
Trade receivables	190,743	183,502
Other receivables	52,388	38,523
Income receivable from works under construction contracts	180,396	176,689
Inventory	21,918	27,227
Inventories of real estate and rights in real estate	75,713	63,828
	734,867	676,426
Non-current assets		
Investments in entities accounted for at equity	151,088	133,612
Other Long-term receivables	3,750	3,916
Fixed assets, net	48,659	38,465
Goodwill and other intangible assets, net	102,022	93,462
Receivables for concession for the provision of services	25,888	28,409
Long-term inventories of real estate	15,224	16,240
Deferred taxes	978	4,640
	347,609	318,744
	1,082,476	995,170

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	December 31	
	2016	2015
	U.S. Dollars in thousands	
Current liabilities		
Credit from banking entities and others	12,787	11,435
Loan to finance entrepreneurial real estate	25,697	31,671
Current maturities of bonds	30,261	24,778
Trade payables	277,334	254,074
Other payables	156,066	100,930
Dividend payable to shareholders in the Company	8,062	-
Liabilities in respect of works under construction contracts	87,292	108,129
	597,499	531,017
Non-current liabilities		
Liabilities to banking entities	4,902	13,316
Bonds	192,741	168,551
Other long-term liabilities	25,864	27,224
Employee benefit liabilities, net	9,576	9,307
Deferred taxes	23,651	25,955
	256,734	244,353
Equity attributed to shareholders in the company		
Share capital	30,561	30,561
Share premium	83,816	84,258
Capital reserves on translation differences in investee companies and other reserves	(82,017)	(79,908)
Treasury shares	(7,258)	(7,456)
Retained earnings	196,702	183,641
	221,804	211,096
Non-controlling interests	6,439	8,704
Total equity	228,243	219,800
	1,082,476	995,170

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

March 29, 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

	Year ended December 31		
	2016	**2015**	**2014**
	U.S. Dollars in thousands (except per share data)		
Revenues from the performance of works and the provision of services	1,325,084	1,192,164	997,212
Cost of works and services	(1,231,984)	(1,104,150)	(909,787)
Gross profit	**93,100**	**88,014**	**87,425**
Adjustment of fair value of income-generating real estate	-	-	291
Administrative and general expenses	(44,065)	(40,250)	(36,630)
Selling and marketing expenses	(3,706)	(2,950)	(1,989)
Company's share of the profits of entities accounted for at equity, net	8,373	13,229	7,236
Other income (expenses), net	14,195	(617)	(773)
	(25,203)	(30,588)	(31,865)
Operating income	**67,897**	**57,426**	**55,560**
Financing income	9,821	9,820	6,068
Financing expenses	(17,216)	(17,611)	(14,836)
Financing expenses, net	(7,395)	(7,791)	(8,768)
Income before taxes on income	**60,502**	**49,635**	**46,792**
Taxes on income	(16,073)	(11,939)	(12,430)
Income from continuing operations	44,429	37,696	34,362
Income (loss) from discontinued operations, net	(4,043)	310	(1,279)
Net income	**40,386**	**38,006**	**33,083**
Net income attributable to:			
Shareholders in the Company	38,246	37,418	32,241
Non-controlling interests	2,140	588	842
	40,386	38,006	33,083
Net earnings (loss) per share attributable to shareholders in the company (in U.S. Dollars):			
Basic net earnings (loss) per share:			
From continuing operations	11.81	10.36	9.39
From discontinued operations	(1.13)	0.09	(0.36)
	10.68	10.45	9.03
Diluted net earnings (loss) per share:			
From continuing operations	11.50	10.35	9.20
From discontinued operations	(1.12)	0.09	(0.35)
	10.38	10.44	8.85

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
CONVENIENCE TRANSLATION INTO US DOLLARS

	Year ended December 31		
	2016	2015	2014
	U.S. Dollars in thousands		
Net income	**40,386**	**38,006**	**33,083**
Other comprehensive income (loss) - (after tax effects):			
Amounts that will never be reclassified to profit or loss:			
Income (loss) on the re-measurement of defined benefit plans, net	32	(169)	1,257
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	(2,598)	(23,833)	(26,428)
Gain (loss) from hedging transactions, net	(1,085)	(808)	574
Total other comprehensive loss	(3,651)	(24,810)	(24,597)
Total comprehensive income	**36,735**	**13,196**	**8,486**
Comprehensive income attributable to:			
Shareholders in the Company	34,595	12,607	7,646
Non-controlling interests	2,140	589	840
	36,735	13,196	8,486

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' 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	**30,561**	**84,258**	**183,641**	**1,616**	**532**	**183**	**(82,239)**	**(7,456)**	**211,096**	**8,704**	**219,800**
Net income	-	-	38,246	-	-	-	-	-	38,246	2,140	40,386
Other comprehensive income (loss):											
Gain (loss) on the re-measurement of defined benefit plans, net	-	-	-	-	-	32	-	-	32	-	32
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(2,598)	-	(2,598)	-	(2,598)
Loss on hedging transactions, net	-	-	-	-	(1,085)	-	-	-	(1,085)	-	(1,085)
Total other comprehensive income (loss)	-	-	-	-	(1,085)	32	(2,598)	-	(3,651)	-	(3,651)
Total comprehensive income (loss)	**-**	**-**	**38,246**	**-**	**(1,085)**	**32**	**(2,598)**	**-**	**34,595**	**2,140**	**36,735**
Exercise of option warrants into shares	-	(442)	-	(335)	-	-	-	777	-	-	-
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(3,539)	(3,539)
Purchase non-controlling interests	-	-	(216)	-	-	-	-	-	(216)	(866)	(1,082)
Purchase of treasury shares, net	-	-	-	-	-	-	-	(579)	(579)	-	(579)
Cost of share-based payment	-	-	-	1,877	-	-	-	-	1,877	-	1,877
Dividend to shareholders in the company	-	-	(24,969)	-	-	-	-	-	(24,969)	-	(24,969)
Balance at December 31, 2016	**30,561**	**83,816**	**196,702**	**3,158**	**(553)**	**215**	**(84,837)**	**(7,258)**	**221,804**	**6,439**	**228,243**

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' 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, 2015	**30,557**	**82,934**	**161,642**	**1,523**	**1,340**	**353**	**(58,406)**	**(6,726)**	**213,217**	**7,897**	**221,114**
Changes following the initial implementation of IFRS 15	-	-	1,100	-	-	-	-	-	1,100	-	1,100
Balance as of January 1, 2015 following the initial implementation of IFRS 15	**30,557**	**82,934**	**162,742**	**1,523**	**1,340**	**353**	**(58,406)**	**(6,726)**	**214,317**	**7,897**	**222,214**
Net income	-	-	37,418	-	-	-	-	-	37,418	588	38,006
Other comprehensive income (loss):											
Gain (loss) on the re-measurement of defined benefit plans, net	-	-	-	-	-	(170)	-	-	(170)	1	(169)
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(23,833)	-	(23,833)	-	(23,833)
Loss on hedging transactions, net	-	-	-	-	(808)	-	-	-	(808)	-	(808)
Total other comprehensive income (loss)	-	-	-	-	(808)	(170)	(23,833)	-	(24,811)	1	(24,810)
Total comprehensive income (loss)	**-**	**-**	**37,418**	**-**	**(808)**	**(170)**	**(23,833)**	**-**	**12,607**	**589**	**13,196**
Exercise of option warrants into shares	4	1,324	-	(1,395)	-	-	-	71	4	-	4
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(130)	(130)
Initially consolidated company	-	-	-	-	-	-	-	-	-	348	348
Purchase of treasury shares, net	-	-	-	-	-	-	-	(801)	(801)	-	(801)
Cost of share-based payment	-	-	-	1,488	-	-	-	-	1,488	-	1,488
Dividend to shareholders in the company	-	-	(16,519)	-	-	-	-	-	(16,519)	-	(16,519)
Balance at December 31, 2015	**30,561**	**84,258**	**183,641**	**1,616**	**532**	**183**	**(82,239)**	**(7,456)**	**211,096**	**8,704**	**219,800**

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

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' 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 remeasurement 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, 2014	**30,550**	**80,847**	**147,606**	**3,964**	**766**	**(906)**	**(31,978)**	**(5,905)**	**224,944**	**6,651**	**231,595**
Net income	-	-	32,241	-	-	-	-	-	32,241	842	33,083
Other comprehensive income (loss):											
Gain (loss) on the re-measurement of defined benefit plans, net	-	-	-	-	-	1,259	-	-	1,259	(2)	1,257
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(26,428)	-	(26,428)	-	(26,428)
Gain on hedging transactions, net	-	-	-	-	574	-	-	-	574	-	574
Total other comprehensive income (loss)	-	-	-	-	574	1,259	(26,428)	-	(24,595)	(2)	(24,597)
Total comprehensive income (loss)	**-**	**-**	**32,241**	**-**	**574**	**1,259**	**(26,428)**	**-**	**7,646**	**840**	**8,486**
Exercise of option warrants into shares	7	2,087	-	(2,941)	-	-	-	854	7	-	7
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(17)	(17)
Initially consolidated company	-	-	-	-	-	-	-	-	-	423	423
Purchase of treasury shares, net	-	-	-	-	-	-	-	(1,675)	(1,675)	-	(1,675)
Cost of share-based payment	-	-	-	500	-	-	-	-	500	-	500
Dividend to shareholders in the company	-	-	(18,205)	-	-	-	-	-	(18,205)	-	(18,205)
Balance at December 31, 2014	**30,557**	**82,934**	**161,642**	**1,523**	**1,340**	**353**	**(58,406)**	**(6,726)**	**213,217**	**7,897**	**221,114**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Year ended December 31		
	2016	2015	2014
	U.S. Dollars in thousands		
Cash flows from operating activities:			
Net income	40,386	38,006	33,083
Adjustments required to present cash flows from operating activities:			
Adjustments to profit and loss items:			
Company's share of profits of entities accounted for at equity, net	(8,373)	(13,229)	(7,236)
Dividend received from entities accounted for at equity	4,876	3,011	2,788
Depreciation and amortization	14,862	12,435	11,030
Increase in employee benefit liabilities, net	447	302	435
Adjustment of fair value of income-generating real estate	-	-	(291)
Loss (gain) on the disposal of fixed assets and investments, net	(15,822)	(742)	344
Decrease (increase) in the value of marketable securities, net	(1,869)	42	(101)
Cost of share-based payment	1,877	1,488	500
Deferred taxes, net	(1,911)	4,595	(394)
Erosion (revaluation) of long-term receivables and payables, long-term loans and bonds, net	(1,919)	904	(3,249)
Adjustments in respect of loss (income) from discontinued operations, net	4,043	(311)	1,279
Changes in asset and liability items:			
Increase in trade receivables	(11,511)	(11,335)	(18,216)
Decrease (increase) in other receivables and in respect of concession for the provision of services	(19,289)	3,060	(2,073)
Increase in income receivable from works under construction contracts	(5,833)	(35,990)	(39,602)
Decrease (increase) in inventory	217	881	(4,515)
Decrease in inventories and inventories of real estate (before acquisition of and investment in land)	2,702	5,981	2,519
Increase in trade payables	26,279	15,744	43,773
Increase (decrease) in other payables	40,782	(1,300)	14,175
Increase (decrease) in liabilities in respect of works under construction contracts	(12,368)	36,642	2,568
	17,190	22,178	3,734
Net cash generated by continuing operating activities (before acquisition of and investment in land)	57,576	60,184	36,817
Acquisition of and investment in land (*)	-	(35,871)	-
Net cash generated by continuing operating activities	57,576	24,313	36,817
Net cash generated (absorbed) by discontinued operating activities	(890)	5,026	(407)
Net cash generated by operating activities	56,686	29,339	36,410

(*) The acquisition of and the investment in land are presented under inventory of land and rights in land.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Year ended December 31		
	2016	2015	2014
	U.S. Dollars in thousands		
Cash flows from investment activities:			
Investment in entities accounted for at equity, net	1,273	(11,028)	(9,723)
Decrease (increase) in investments, restricted cash and deposit in trust, net	(13,914)	(2,881)	2,437
Purchase of fixed assets and intangible assets	(22,245)	(12,876)	(9,321)
Decrease in receivables for a concession arrangement for the provision of services	1,466	1,453	1,503
Acquisition of initially consolidated companies (a)	(8,170)	(5,182)	(2,811)
Proceeds from the sale of fixed assets	9,454	1,129	524
Proceeds from the sale of (investment in) marketable securities, net	(6,197)	(7,517)	26,099
Collection of long-term receivables, net	6	10	226
Proceeds from the disposal of income - generating real estate	-	26,398	-
Net cash generated (absorbed) by investment activities	(38,327)	(10,494)	8,934
Cash flows from financing activities:			
Issuance of share capital	-	4	7
Purchase non-controlling interests	(1,082)	-	-
Dividend paid to non-controlling interests and to shareholders in the company	(17,645)	(16,649)	(18,222)
Purchase of treasury shares, net	(579)	(801)	(1,675)
Issuance of bonds, net	54,550	48,044	61,996
Receipt of long-term loans	-	443	52,186
Repayment of long-term loans	(10,308)	(14,286)	(40,892)
Repayment of bonds	(24,362)	(24,470)	(15,468)
Short-term credit from banking entities and others and for financing entrepreneurial real estate, net	(1,511)	25,770	(44,730)
Net cash generated (absorbed) by financing activities	(937)	18,055	(6,798)
Exchange differences on balances of cash and cash equivalents	(6,988)	(1,021)	49
Less balance of cash and cash equivalents in respect of income-generating real estate held for sale at the end of the year	-	-	(739)
Increase in cash and cash equivalents	10,434	35,879	37,856
Cash and cash equivalents at the beginning of the year	157,223	121,344	83,488
Cash and cash equivalents at the end of the year	167,657	157,223	121,344

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

CONSOLIDATED STATEMENTS OF CASH FLOWS
CONVENIENCE TRANSLATION INTO US DOLLARS

	Year ended December 31		
	2016	2015	2014
	U.S. Dollars in thousands		
(a) The initial consolidation of a consolidated companies			
Assets and liabilities of the consolidated companies at the time of acquisition:			
Working capital, net (excluding cash and cash equivalents)	3,582	(3,297)	(10)
Investment in marketable securities and deposits in trust	-	(582)	-
Fixed assets, net	(78)	(1,115)	(40)
Investment in entities accounted for at equity	-	-	1,388
Intangible assets, net	(13,529)	(5,435)	(2,943)
Goodwill	(1,353)	(4,699)	(2,178)
Provision for vacation pay	261	-	-
Deferred taxes	2,553	2,464	192
Liability for conditional consideration	-	2,247	-
Liability for put option for non-controlling interests	-	2,987	-
Other long-term liabilities	193	1,900	357
Gain on entry into consolidation	201	-	-
Non-controlling interests	-	348	423
	(8,170)	(5,182)	(2,811)
(b) Additional cash flow information: *)			
Cash paid during the year for:			
Interest	8,511	10,785	10,130
Taxes on income	8,010	8,764	12,365
Cash received during the year for:			
Interest	3,497	2,710	2,546
Taxes on income	877	1,001	905
(c) Significant activities, not involving cash flows:			
Dividend payable to non-controlling interests and shareholders in the Company	10,863	-	-
Liabilities to owners of land	14,145	-	-

*) Including cash in respect of discontinued operations.

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

Note 1 – General

a. Electra Ltd., a subsidiary company of Elco Ltd., was incorporated in the year 1962 as a private company. In November 1971 the Company became a public company whose securities are traded on the Stock Exchange.

As of the reporting date, the Group operates in Israel and abroad in five main segments: the construction and infrastructure projects in Israel segment, the construction and infrastructure projects abroad segment, the facility management segment, the development and construction of entrepreneurial real estate segment and the concessions segment.

The following is a description of the Company’s operating segments:

- **The construction and infrastructure projects in Israel segment:** The Group's operations in this segment are carried out such that the Group offers the customer services in the field of buildings and infrastructure in Israel, which is generally done as a package transaction. In this way, the Group is equipped to accompany the customer during each stage of the project that is requested, starting from the installation of electro-mechanical systems in the building (air conditioning, electricity and plumbing systems, elevators and escalators), the provision of construction services, infrastructures, the instillation of electrical infrastructure products for very high voltage power lines, high/intermediate voltage and low voltage supplies for buildings, industries and infrastructure and the construction and performance of national infrastructure facilities.

- **The construction and infrastructure projects abroad segment:** In this segment the Group extends instillation services for electro-mechanical systems to its customers. Electech Holdings B.V. (hereinafter – Electech), a foreign Dutch company that is wholly owned by the Company, coordinates the Group's electro-mechanical operations outside of Israel.

  Electech's operations are conducted through foreign companies and partnerships.

  The operations in this segment are conducted in the following countries:

  Nigeria – The planning and instillation of projects and the sale of equipment in the electro-mechanical field through O.T.S. which holds a wholly owned foreign company in Nigeria.

  Others - the planning and instillation of projects in the electro-mechanical field in Poland, Russia, Bulgaria, Romania, England, Angola, Equatorial Guinea and Belarus, directly or via subsidiary companies and partnerships abroad.

- **The facility management segment**
  Within the framework of this segment, the Group provides a range of services for the management and operation of properties and infrastructures, in the maintenance and management fields, in order to achieve an improvement in affectivity, profitability and the availability of the facilities as well as for cost savings, thus enabling the customer to focus on its core business. The Group's activity in this segment supplements its activity in the projects for buildings and infrastructure in Israel and abroad segments. See Note 36 on the subject of the discontinued trading activities.

  In addition, within the context of this segment, the Group provides services for elevators, escalators, wheelchair lifts and electro-mechanical systems, fire detection and extinguishing solutions, the management and maintenance of buildings, services in the field of finishing works and refurbishments, cleaning and security services and the operation of sewage treatment facilities. In many cases, the know-how that has been accumulated in these spheres within the context of the construction and infrastructure projects in Israel and abroad, also serves the Group's operations in this segment.

Note 1 – General (Continued)

a. (Continued)

- **The development and construction of entrepreneurial real estate segment**: The Group is engaged in the development and construction of entrepreneurial real estate in Israel and abroad. This activity has been and is performed by acquiring land whether it be wholly owned or held together with strategic partners or combination transactions, obtaining the permits that are required, obtaining the re-zoning of the land, if needed, marketing, planning and constructing the projects and/or by selling the real estate during one of the various stages of development. Within the framework of this activity, the Group has acquired lands in Israel and abroad, which have or will be developed for the generality of projects. The Group acquires lands in Israel within the context of the Group's strategy of developing entrepreneurial activity in Israel under the Electra Residential brand.

- **The concessions segment**: The Group's activities in this segment complements its activities in the construction and infrastructure projects in Israel segment and in the facility management segment, the concessions operations are focused on national infrastructure projects, which are executed using financing from the private sector (primarily BOT, BOO and PFI projects). These operations are carried out through participation in national tenders and also by competing for projects that are promoted under an outline of licenses and/or specific regulation. At this stage the operations are focused in Israel.

b. Definitions

The Company	-	Electra Limited
The Group	-	The Company and its investee companies.
The Elco Group	-	Elco Ltd. and its investee companies
The parent company	-	Elco Ltd.
Related parties	-	As defined in IAS 24.
Interested parties and controlling interests	-	As defined in the Securities Regulations (Annual Financial Statements) – 2010.

Note 2 – 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 December 31, 2016 (NIS 3.845 = 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.