ELECTRA LTD.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

(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, 2015

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**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, 2015**

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 service, management and trade 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, 2015.

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)

	31.12.2015		31.12.2014		
	Total	**%**	**Total**	**%**	**%**
Total of the statement of financial position	980,633	100.0	923,666	100.0	6.2
Equity	216,590	22.1	217,884	23.6	(0.6)
Current assets	666,545	68.0	614,758	66.6	8.4
Non-current assets	314,088	32.0	308,908	33.4	1.7
Current liabilities	523,260	53.4	483,111	52.3	8.3
Non-current liabilities	240,783	24.6	222,671	24.1	8.1

The Group's assets in the consolidated statement of financial position at the end of the period amounted to approximately US$ 981 million, compared to approximately US$ 924 million at the end of 2014, an increase of approximately 6%.

The surplus of the current assets over the current liabilities amounted to approximately US$ 143 million, compared with approximately US$ 132 million at the end of 2014.

The current ratio is 1.27, which is similar to the ratio at the end of 2014.

The increase in the total of the statement of financial position derives primarily from an increase in most of the Group's operation, as well as from the purchase of inventory of land in an amount of US$ 35 million.

Non-current liabilities - the increase derives primarily from the recruitment of long-term bonds in an amount of US$ 47 million, which was partially offset by a decrease of US$ 24 million in respect of repayments of bonds

3. Equity

As of the date of the statement of financial position, equity amounts to approximately US$ 217 million, compared with approximately US$ 218 million at the end of 2014. 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$ 37.5 million, less the impact of adjustments deriving from the translation of financial statements of foreign operations in an amount of US$ 23.5 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 Ruble and the Naira), and less a dividend of US$ 16.3 million, which was declared and paid in the reporting period. In addition to the aforesaid, the Company recorded an adjustment to the equity at the beginning of the period, in an amount of US$ 1.1 million, in light of changes following a change in the accounting policy and the adoption of the IFRS 15 standard (see Section 13 below). 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 10-12/15	Q 07-09/15	Q 04-06/15	Q 01-03/15	Q 10-12/14
Revenues from the performance of works and the provision of services	313,535	297,561	305,326	282,750	275,140
Cost of works and services	(291,243)	(275,539)	(281,752)	(259,169)	(251,908)
Gross profit	**22,292**	**22,022**	**23,574**	**23,581**	**23,232**
Administrative and general expenses	(10,558)	(10,317)	(10,377)	(9,142)	(10,078)
Selling and marketing expenses	(2,309)	(1,446)	(1,205)	(1,278)	(1,196)
The Company's share of profits of companies, accounted for at equity, net	3,812	2,042	2,079	5,102	2,654
Other income (expenses), net	(1,079)	194	422	(145)	(305)
Operating income	**12,158**	**12,495**	**14,493**	**18,118**	**14,307**
Financing expenses, net	(1,591)	(829)	(2,988)	(2,488)	(2,187)
Income before taxes on income	**10,567**	**11,666**	**11,505**	**15,630**	**12,120**
Taxes on income	(2,508)	(2,355)	(2,458)	(4,596)	(4,018)
Net income for the period	**8,059**	**9,311**	**9,047**	**11,034**	**8,102**
Attributable to:					
Shareholders in the Company	8,010	9,262	8,770	10,830	7,794
Non-controlling interests	49	49	277	204	308
	8,059	**9,311**	**9,047**	**11,034**	**8,102**

(*) The figures that are recorded above are stated after the adoption of the IFRS 15 Standard, see Section 13 below for details regarding the initial implementation of IFRS 15.

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

The Group's revenues in 2015 (hereinafter - the reporting period) amounted to US$ 1,199 million compared with US$ 1,005 million in the previous year, an increase of approximately 19%. 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 service, maintenance and trade segment (see the additional details in section 10 below).

The revenues from the performance of works and the provision of services do not include additional revenues of approximately US$ 213 million (previous year approximately US$ 173 million) of entities accounted for at equity, net.

The revenues in the fourth quarter of 2015 amounted to US$ 314 million compared with US$ 275 million in the corresponding period in the previous year, an increase of approximately 14%.

6. Gross profit

The gross profit in the reporting period amounted to US$ 91 million, compared with US$ 90 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$ 13.0 million in the reporting period, as compared with approximately US$ 7.1 million in the previous year.

The increase 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 in Israel segment as well as 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 (hereinafter – 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 gain of US$ 0.9 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$ 0.4 million in the previous year.

In addition to the aforesaid, the company derived gains of US$ 1.9 million in the reporting period, which derived primarily from the recognition of profits on entrepreneurial real estate projects, see Section 13 below for details in connection with the initial implementation of IFRS 15.

8. Financing expenses, net

Financing expenses, net amounted to approximately US$ 7.9 million in the reporting period, as compared with approximately US$ 9.1 million in the previous year.

9. Net income

The Group's net income amounted to approximately US$ 37.5 million in the reporting period, as compared with approximately US$ 32.6 million in the previous year.

10. Report in respect of business segments

1. Revenues: (In US$ thousands)

	For the year ended December 31		
	2015	2014	2013
Construction and infrastructure projects in Israel	811,532	677,985	589,359
Construction and infrastructure projects abroad	50,089	60,453	76,501
Facility management and trade	326,249	258,919	231,789
Development & construction of entrepreneurial real estate	14,064	9,213	7,379
Concessions	3,667	3,805	3,016
Consolidation adjustments	(6,429)	(5,826)	(7,356)
Total	**1,199,172**	**1,004,549**	**900,688**

A. Construction and infrastructure projects in Israel

The revenue turnover in the reporting period amounted to approximately US$ 812 million (approximately 68% of segmental revenues) as compared with US$ 678 million (approximately 67% of segmental revenues) in the previous year, an increase of approximately 20%. The increase derives from most of the operations in this segment, and primarily from an increase in the operations of Electra M&E, Electra Infrastructures Hofrei Hasharon and Electra Construction Ltd..

B. Construction and infrastructure projects abroad

The revenue turnover in the reporting period amounted to approximately US$ 50 million (approximately 4% of segmental revenues) as compared with US$ 60 million (approximately 6% of segmental revenues) in the previous year, a decrease of approximately 17% .

C. Service, maintenance and trade

The revenue turnover in the reporting period amounted to approximately US$ 326 million (approximately 27% of segmental revenues) as compared with US$ 259 million (approximately 26% of segmental revenues) in the previous year, an increase of approximately 26%, which derives primarily from the initial consolidation of the operations of Electra – Danko and Tavas Cleaning, Guarding and Security Services Ltd., which were not included in the parallel periods in the previous year and from an increase in most of the Group's operations in this segment.

D. Development & construction of entrepreneurial real estate

The revenues in the entrepreneurial real estate segment amounted to approximately US$ 14 million (approximately 1% of segmental revenues) as compared with US$ 9 million (approximately 1% of segmental revenues) in the previous year, an increase of approximately 53%. The increase in the revenues derives primarily from the recognition of income from the sale of a plot of land in Shoham and from the sale and delivery of the rights in three apartments in the Gymnasia Tower Project, together with the recognition of additional income from management fees for the W Prime project, which were offset by a decrease in rental revenues as a result of the sale of income-generating real estate (the Electra Tower) in the reporting period.

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$ 3.7 million in the reporting period, as compared with approximately US$ 3.8 million in the previous year.

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

	For the year ended December 31		
	2015	2014	2013
Construction and infrastructure projects in Israel	27,408	31,179	24,893
Construction and infrastructure projects abroad	6,281	6,052	7,299
Service, maintenance and trade	30,035	25,994	27,012
Development & construction of entrepreneurial real estate	(255)	1,398	1,977
Concessions	5,665	1,413	(2,290)
Total	**69,134**	**66,036**	**58,891**

A. Construction and infrastructure projects in Israel

The operating income in the reporting period amounted to approximately US$ 27.4 million (approximately 40% of segmental operating income) as compared with US$ 31.2 million (approximately 47% of segmental operating income) in the previous year, a decrease of approximately 12%. The change in the operating income derived from an increase in most of the Group's operations in this segment, which was offset by a 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, net, in an amount of US$ 2.8 as compared with a loss of US$ 1.9 in the comparative period in the previous year as well as from a significant number of projects that were performed and handed over in the previous year in Electra Infrastructures as compared with new projects that are in their initial stages and from which no significant profits have yet been recognized.

B. Construction and infrastructure projects abroad

The operating income in the reporting period amounted to approximately US$ 6.3 million (approximately 9% of segmental operating income) as compared with US$ 6.1 million (approximately 9% of segmental operating income) in the previous year, an increase of approximately 4%.

C. Service, maintenance and trade

The operating income in the reporting period amounted to approximately US$ 30 million (approximately 44% of segmental operating income) as compared with US$ 26 million (approximately 39% of segmental operating income) in the previous year, an increase of approximately 16%. The increase derived from the initial consolidation of the operations of Electra – Danko and Tavas Cleaning, Guarding and Security Services Ltd,, which were not included in the comparative periods in the previous year and from an increase in most of the Group's operations in this segment.

D. Development & construction of entrepreneurial real estate

The operating loss in the reporting period amounted to approximately US$ 0.3 million as compared with operating income of US$ 1.4 million in the previous year.

After eliminating the impact of income from Electra Tower, which has been sold, the operating loss in the reporting period is similar to the comparative period in the previous year.

The Company recorded a gain of US$ 2.3 million from the initial implementation of IFRS 15 (see section 13 below for details) and on the other hand there was a decrease in the operating profit that derived primarily from a decrease in rental income as a result of the sale of income-generating real estate (Electra Tower) in the reporting period.

E. Concessions

The operating income in the reporting period amounted to approximately US$ 5.7 million as compared with operating income of US$ 1.4 million in the previous year. The increase in the operating income in the reporting period derives primarily from financing income in companies accounted for at equity, net, primarily as a result of the revaluation of the fair value of hedging transactions as well as financing income deriving from the progress of a financial asset in a BOT project. During the reporting period, a gain was recorded from the updating of the fair value of embedded derivatives, which were recorded under the Company’s share of the profits of entities that are accounted for at equity, net, in an amount of US$ 3.7 million, as compared with approximately US$ 2.3 million in the comparative period in the previous year.

11. Orders backlog

The Group's backlog of orders as at December 31, 2015 amounted to approximately US$ 2,406 million, compared with approximately US$ 2,230 million at the end of 2014. The backlog as of December 31, 2015 includes the Group's share of affiliated companies and companies under joint control, which are accounted for at equity, in an amount of US$ 365 million (December 31, 2014 – US$ 472 million).

	2015				2014			
	Construction and infrastructure projects in Israel segment	Construction and infrastructure projects abroad segment	Facility management and trade segment *)	Total	Construction and infrastructure projects in Israel segment	Construction and infrastructure projects abroad segment	Facility management and trade segment	Total
	(In US$ millions)							
The distribution of the orders backlog by operating segment								
Without affiliated companies	1,526	91	424	2,041	1,385	85	288	1,758
In respect of affiliated companies	162	23	180	365	249	42	181	472
Total	**1,688**	**114**	**604**	**2,406**	**1,634**	**127**	**469**	**2,230**
The distribution of the orders backlog without the Company's share of affiliated companies								
For performance in 2016	749	39	263	1,051				
For performance in 2017 and thereafter	777	52	161	990				
Total	**1,526**	**91**	**424**	**2,041**				

(*) 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$ 265 million, of which approximately US$ 22 million will be performed in 2016.

As of the date of the publication of this report, the orders backlog has increased by approximately US$ 154 million in respect of the receipt of works on the Teva Campus Project in Ra'anana.

12. Liquidity and sources of finance

The Group's liquid means (cash and cash equivalents and marketable securities) amounted to approximately US$ 163 million as of December 31, 2015, compared with approximately US$ 120 million as of December 31, 2014.

The change in the Group's liquid means in the year 2015 derived, inter alia, from cash of approximately US$ 64.3 million generated by operating activities before the purchase of and investment in land, as compared with US$ 35.9 million in the previous year.

The cash flows from operating activities in the reporting period after the purchase of and investment in land in an amount of US$ 35.3 million, amounted to US$ 28.9 million..

Net cash absorbed by investment activities amounted to approximately US$ 10.3 million in the year 2015, compared with net cash of approximately US$ 8.8 million generated by investment activity in the previous year, and included primarily investment of approximately US$ 10.9 million in entities that are accounted for at equity, a net investment of US$ 7.4 million in marketable securities, the acquisition of consolidated companies in an amount of US$ 5.1 million, an investment of approximately US$ 12.7 million in the purchase of fixed and intangible assets, and on the other hand, the consideration from the disposal of income-generating real estate, in an amount of US$ 26.0 million, net of tax.

The cash generated by financing activities amounted to approximately US$ 17.8 million in the year 2015, by comparison with net cash of approximately US$ 6.7 million absorbed by financing activity in the previous year and included primarily the issuance of bonds in an amount of US$ 47.3 million, the receipt of loans for the financing of entrepreneurial real estate in an amount of US$ 27.2 million, and on the other hand, the repayment of long-term loans and bonds in an amount of approximately US$ 38.2 million and the payment of a dividend in an amount of approximately US$ 16.4 million.

13. The disclosure that is required in connection with the early adoption of IFRS 15

In light of the publication of IFRS 15 (hereinafter: "The Standard") in May 2014, the Group began to consider the possible impact of the Standard on its financial statements and its adjustment to the Group's various activities, already in 2014. As from that time, the Group has performed examinations in respect of the possible impacts, including by means of consultation with professional experts and the receipt of legal opinion in the relevant issues. Such examination has been performed longitudinally for all of the companies in the Group.

As a result and within the framework of all of the activities, which are enumerated below, which have been performed by the Group, the Group has decided to adopt the Standard by way of early adoption, as from the Group's financial statements for the year 2015.

The Group has adopted the Standard in accordance with the partial retrospective implementation approach, with certain reliefs, in other words, only in respect of contracts that had not yet been completed as of the beginning of the period (January 1, 2015). The retrospective implementation approach effectively requires the recognition of the cumulative impact of the implementation of the Standard on contracts that had not yet been completed as of January 1, 2015, by means of the adjustment of the opening balance of the retained earnings as of that time.

The main impact of the initial implementation of the Standard is in relation to the Group's entrepreneurial activities in connection with the sale of residential apartments, offices and commercial space in Israel. The total cumulative impact of the implementation of the Standard as at January 1, 2015, is a rate of approximately 0.5% of the Group's equity (a cumulative amount of US$ 1.1 million) and the net impact on the comprehensive income for the year 2015 is at a rate of approximately 6.2% of the Group's net income (in an amount of US$ 2.3 million).

For additional details, see Note 3 to the annual consolidated financial statements as at December 31, 2015.

The following is disclosure in connection with the initial implementation of the Standard on the Group's financial statements for the year 2015:

A. The activities that the Group has performed in order in preparation for the adoption of the Standard and the steps that it has taken in order to reduce the risk of errors in its financial statements:

The Group has conducted a significant process in preparation for the implementation of the Standard, with the objective of reducing the risk of errors in its financial statements as far as is possible. This preparation process included, inter alia:

- As from the time of the publication of the Standard, the Group began the examination of the possible impacts on the Group's financial statements. This process includes the reading of professional literature that has been published and internal discussions that have been held opposite all of the companies in the Group.

- A conference was held for the financial manager and financial controllers in the Group in which the main issues arising from the Standard and the possible ramifications for the Group were discussed.

- A person was appointed to be responsible for the examination of the impact of the Standard at the level of the Group, who coordinated the guidance and the examinations that were performed and the documentation for the examination, which was prepared by all of the companies in the Group.

- Professional meetings were held with all of the companies in the Group on an individual basis by way of working groups. Within the framework of these meetings, a comprehensive discussion has been held regarding the issues that arise from the Standard and it has been tested whether they have impacts on the companies. A person has been appointed in each company (mostly the financial manager or the financial controller of the company) to be responsible for the checking of all of the issues and the issuance of a summary memorandum regarding the issues that have been identified, the checks that have been conducted and the impacts that have been identified.

- A report format has been agreed for all of the companies in the Group in order to map and identify possible impacts for each company, representatives of the Company's Finance Department, including the person who is responsible for the implementation of the Standard were present at all of the meetings that have been held in the Company on this issue, in order to verify the reconciliation of the policy in the Group and the completeness of the flow of information.

- Meetings have been held with and opinions received from professionals in order to examine various issues, inter alia:
  - A legal opinion for the purpose of the examination of the right to enforce sale contracts.
  - An economic opinion for the examination of the assumptions and the estimates that have been taken into account in the building of a model for the recognition of income from entrepreneurial real estate.

- In relation to the sale contracts in Israel for residential apartments and offices, it has been determined that the timing of the recognition of income will be over time, based, inter alia, on a legal opinion, which determines that the Group has the ability to legally enforce the contract on the customer.

- In light of the Group's use of an ERP system, which has been adapted for projects in which the Group operates, this has enabled the flow of information, the checking of data longitudinally and the availability of information at any time that may be required.

- As preparation on the issue of the recognition of income in the entrepreneurial segment, the Group has started the running in of an ERP system for the management of entrepreneurial projects, the management of contracts and customers (CRM), which will be used by it as from the year 2016. For the purpose of the recognition of income in the entrepreneurial segment in affiliated companies in 2015, a model has been built that relies on the Group's Control Departments for the recognition of income, which includes all of the key assumptions that are required and the accounting policy that is derived from this for every relevant issue that has been discussed.

- A reporting format has been agreed for all of the companies in the Group for updating the Group in relation to issues and impacts that have been identified.

- The companies in the Group have received professional position papers within the context of which the impacts of the new standard on issues relating to the recognition of income in the Group have been examined, including the identification of various performance commitments, the grouping and splitting of contracts, the determination of the consideration, the timing of the recognition of the income and etcetera.

- The Group has studied the response from the Securities Authority to a request for preliminary guidance regarding the early adoption of the standard on the measurement and the disclosures that are required. Furthermore, during the course of the year, the Group has held a number of discussions with the Securities Authority on the issue.

- The Group has examined the impact of the standard on the quarterly financial statements in 2015, which require the updating of the Report of the Board of Directors, which will require updates of the comparative figures within the framework of the quarterly reports that will be published in 2016.

- The Group has examined the components of the internal control and the adaptation thereof in accordance with what is required in order to achieve effective control over the proper initial implementation of the provisions of the Standard, and in particular, in connection with the reasonability of the estimates and the significant judgments that are involved in the implementation of those provisions.

- An additional meeting of the Financial Statements Committee was held in order to discuss the ramifications of the Standard and the processes that have been performed in order to implement the Standard.

- To the best of the Company's knowledge, a brainstorming team has even been set up that is headed by the Israeli Accounting Standards Board, with representatives of the large accounting firms, in order to discuss the issues that arise from the Standard and primarily in the entrepreneurial field. The Company has received updates in principal regarding such meetings and the Committee's recommendations.

B. <u>The imp[act of the implementation of the Standard on the Group's business activity</u>:

Within the framework of the implementation of the new accounting policy, the following qualitative components have been identified, which have an impact on the Group's financial statements:

1. **The compliance with performance commitments:**

The Group is required to assess in respect of each contract with customers whether it is in compliance with the performance commitment over time or at a point in time, in order to determine the appropriate method for the recognition of income.

The Group has reached the conclusion in reliance on its sale contracts with customers, and in reliance on the provisions of the law and the relevant regulations, and in accordance with the legal opinions that it has received, that where the Group enters into a commitment under a contract for the sale of residential apartments, offices or commercial space in Israel, no asset is created with an alternative use for the Group, and it also has an enforceable right to a payment for performance that has been completed up to that time. In these circumstances, the Group recognizes income over time. Where the said conditions are not met, the income is recognized at a point in time.

Where the Group complies with a performance commitment by means of the transfer of the goods or the services that have been assured, it creates a contractual asset, based on the amount of the consideration that has been generated to date.

Where the consideration that has been received from the customer exceeds the amount of the income that has been recognized, the Group recognizes a contractual commitment that is shown under deferred income.

Apart from the entrepreneurial contracts, no additional contracts were found in respect of which there is a performance commitment over time that has not treated in this way prior to the implementation of the Standard.

The income is measured and recognized in accordance with the fair value of the consideration that has been received or that will be received, taking into account the payments that have been set in the terms of the contract, less taxes that have been collected in favor of third parties.

2. **The measurement of the progress of the performance:**

In most cases, the Group implements the input method for the purpose of measuring the progress of the performance, where the performance commitment is met over time. The Group believes that the use of the inputs method, in accordance with which the income is recognized on the basis of the inputs that the Group has invested in order to meet the performance commitments provides a fairer representation of the income that has actually been produced. In order to implement the inputs method, the Group assesses the cost that is required to complete the project in order to determine the amount of the income that will be recognized These estimates include the costs of the supply of infrastructure (such as materials, work hours, equipment and etcetera), potential lawsuits by contractors as assessed by the project consultant as well as the cost of the compliance with other contractual performance commitments to customers. Furthermore, the Group does not include costs that do not reflect the progress of the performance, such as the cost of land, levies and compulsory payments and credit costs (interest) in the measurement of the "percentage completion".

3. **The recognition of income in respect of contracts that have been signed after progress in performance:**

In cases in which the Group starts to perform activity in connection with an expected contract even before a binding contract has been signed with the customer, or before the contract has reached the stage at which is it possible to recognize income in accordance with the model for recognition of income in the Standard, at the time of the signing of the contract, the Group recognizes income on a cumulative basis ("catch up"), which reflects the performance commitments that have been partially completed or which have been completed as of the time of the signing of the contract.

4. **The capitalization of credit costs for entrepreneurial projects:**

The Group capitalizes credit costs that are connected to construction of qualifying assets. A qualifying asset is an asset for which a significant period of time is required for its preparation for its designated use or its sale and it includes inventory that requires a long period of time in order to bring it to a state in which it can be sold.

The capitalization of the credit costs begins when costs have been expended in respect of the asset itself, the activity has been started to prepare the qualifying asset and which have caused credit costs, and ends when substantially all of the activity that is required to prepare the qualifying asset for its sale or at the time at which the Group recognized income in respect of contracts for the sale of residential apartments, offices or commercial space in Israel and this is in relation to the composition of the inventory which has been disposed of and recognized in the statement of profit or loss. When testing the amount of credit to be capitalized, the Group takes the advances that have been received into account. The amount of the credit costs that is capitalized in the reporting period includes both direct credit cost as well as general credit costs in accordance with the weighted cost of capital.

5. **The ratio of areas or the ratio of considerations:**

The Group reflects the cost of the sale of the apartments for which the income from their sale has been recognized in profit or loss, in accordance with the provisions of the Standard, in accordance with its assessment in respect of the ratio of the cost that is attributed to those apartments out of the overall costs of the project. For this purpose, the Group's management is required to exercise judgment. The said assessment is generally performed in accordance with the ratio of the area that is attributed to the apartments for which income has been recognized to the overall area of the project. For example, the ratio of considerations will be implemented in respect of the component of land, fees, levies and the shell.

6. **The existence of a significant financing component in a contract:**

In the determination of the price for a transaction, the Group adjusts the amount of the consideration that has been assured in respect of the impacts of the time value of money if the timing of the payments that has been agreed between the parties to a contract (whether explicitly or implicitly) provides the customer or the Group a significant financing benefit for the transfer of goods or the provision of services to a customer. In such circumstances, the contract contains a significant financial component. A significant financing component can exist without connection to the question of whether the assurance for financing is noted explicitly in a contract or whether this is implicit from the payment terms that have been agreed between the parties to a contract.

C. The adjustments that have been made in respect of the recognition of income as the result of the implementation of the Standard:

See Note 3 to the financial statements for details regarding the adjustments that have been made in the Group's financial statements as a result of the initial implementation of the Standard.

D. The following table summarized the business results by quarters (in US$ thousands) before the implementation of IFRS 15:

	Q 10-12/15	Q 07-09/15	Q 04-06/15	Q 01-03/15	Q 10-12/14
Revenues from the performance of works and the provision of services	313,535	297,561	305,326	282,750	275,140
Cost of works and services	(291,532)	(275,673)	(281,849)	(259,186)	(251,908)
Gross profit	**22,003**	**21,888**	**23,477**	**23,564**	**23,232**
Administrative and general expenses	(10,558)	(10,317)	(10,377)	(9,142)	(10,078)
Selling and marketing expenses	(2,309)	(1,446)	(1,205)	(1,278)	(1,196)
The Company's share of profits of companies accounted for at equity, net	3,016	1,559	1,609	4,893	2,654
Other income (expenses), net	(1,079)	194	422	(145)	(305)
Operating income	**11,073**	**11,878**	**13,926**	**17,892**	**14,307**
Financing expenses, net	(1,576)	(829)	(2,988)	(2,487)	(2,187)
Income before taxes on income	**9,497**	**11,049**	**10,938**	**15,405**	**12,120**
Taxes on income	(2,431)	(2,320)	(2,432)	(4,592)	(4,018)
Net income for the period	**7,066**	**8,729**	**8,506**	**10,813**	**8,102**
Attributable to:					
Shareholders in the Company	7,017	8,680	8,229	10,609	7,794
Non-controlling interests	49	49	277	204	308
	7,066	**8,729**	**8,506**	**10,813**	**8,102**

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

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

15. Events after the reporting period

A. See Note 39 to the consolidated financial statements as at December 31, 2015.

B. During the period from the date of the statement of financial position (December 31, 2015) to a time shortly before the publication of the financial statements (March 23, 2016), 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 31.12.2015 to 23.3.2016):

Currency	As a %
US Dollar	(1.54)
Euro	1.09
Russian Ruble	5.88
Nigerian Naira	(1.14)

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 2016 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, 2016).

16. Qualitative report in respect of 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 68 in the Chapter containing a description of the entity's business as of December 31, 2015.

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:
The Company is in the habit of making use of currency options and other derivatives.
These transactions are transacted with large financial entities in Israel and abroad and they are transacted 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.
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.
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.
During the reporting year, no significant events occurred that were exceptions from the entity's market risks management policy.

17. Self-purchase programs

A. For additional details regarding the self-purchase plan for regular shares from the year 2011, see 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$ 25.6 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).

18. Discussion and examination of the remuneration of interested parties and senior office holders

For details regarding the examination by the Company's Board of Directors of the remuneration provided in the reporting period to interested parties and senior office holders in the Group, see Regulation 21 in the Chapter on additional details on the entity.

As of today, there are office holders whose terms of employment do not accord with the Company's remuneration policy, as follows:

1. Mr. Moshe Litwak, the VP for Commercial and Business Development, is entitled to notice in advance or a grant in an amount equal to 15 monthly salaries, as well as to a grant at the rate of 100% - 125% of the average annual grant that he will have received in the three years preceding the date at which the event occurs. Furthermore, when he reaches retirement age, Mr. Litwak will be entitled to an especial grant at the rate of 10% of the gross amount that has accumulated in his pension fund (remuneration and severance pay).
2. Mr. Amiram (Ami) Berkovitz, the Joint CEO of Electra M&E, in the event that he is dismissed or resigns or goes on pension, is entitled to 9 to 12 months of notice in advance and to a grant at the level of 75% - 100% of the average annual grant that he will have received in the three years preceding the date at which the event occurs.

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.

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. However, Ms. Irit Stern holds office as an independent director.

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 (hereinafter: "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.
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 holds office as the internal auditor of the parent company – 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. 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. The process of the approval of various material transactions is examined.

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 scale 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 scale of the hours worked		
In the entity	**In the entity's investee entities**	**Total**
1,160	1,270	2,430

2. the audit work plan is set for a period of two years, 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, including 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 2015, 4 meetings were held, on the following dates: 15.3.2015, 8.6.2015, 5.11.2015 and 27.12.2015.

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..
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 2015, 1,050 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 2015, the Group donated an amount of US$ 605.8 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$ 12.8 thousand (NIS 50 thousand) in the reporting year:

- The Association of Friends of the Tel-Aviv Medical Center in the name of Surasky – US$ 512.6 thousand.
- The Maor Foundation – US$ 24.6 thousand.

23. Report on the Company's internal control and the process of the approval of the financial statements

The Company's Board of Directors is responsible for control from above in the Company. As of the date of the financial statements the members of the Board of Directors are Mr. Michael Salkind (Chairman), Mr. Daniel Salkind, Mr. Ehud Ratzabi (external director), Ms. Irit Stern and Mr. Ariel Even (external director). As of the date of the financial statements three of the members of the Board of Directors possess accounting and financial skills as part of the process of the exercise of control in the Company in relation to its financial statements.

The Company has a Committee for the Examination of the Company's Financial Statements (hereinafter: "the Financial Statements Committee") the composition of which is identical to the composition of the members of the Audit Committee. As of the date of the approval of the financial statements for the year 2015, the Financial Statements Committee has three members, of whom two are external directors:

- Ehud Ratzabi - An external director who has accounting and financial skills; (the Chairman of the Financial Statements Committee).
- Irit Stern – An independent director who has accounting and financial skills.
- Mr. Ariel Even - An external director who has accounting and financial skills.

All of the members of the Financial Statements Committee possess the ability to read and to understand financial statements and they provided a declaration to that effect prior to their appointment. For details in respect of their skills, their education and their experience, in reliance upon which the Company sees them as possessing the ability to read and to understand financial statements possessing accounting and financial skills, see the section on Directors possessing accounting and financial skills, which appears earlier in this report.

A draft of the financial statements is delivered to the members of the Financial Statements Committee shortly before the times of the meetings of the Financial Statements Committee. The directors are invited to approach the Company's Chief Executive Officer, the Chief Financial Officer and the external auditors at any time on any question or for any clarification that is required, before the meeting is convened.

On March 9, 2016, the significant issues in the financial reporting were reviewed and discussed by the Financial Statements Committee and this included the evaluations and the estimates that were made in connection with the financial statements, the internal controls that are connected to the financial reporting, the completeness and the fairness of the disclosures in the financial statements, the accounting policies that have been adopted and the accounting treatment that has been implemented on matters that are significant for the Company, and the evaluations of values, including the assumptions and the estimates on which they are based, and on which figures are recorded in the financial statements. Similarly, the correlation between the financial statements and the events that have taken place in the Company in the reporting period and thereafter is examined, and the appropriateness of the scope of the work performed and the fees payable to the external auditors was also examined. In addition, the external auditor makes comments on the subjects that have been presented and the Chief Financial Officer reviews the financial statements. During the course of the review questions are asked by the members of the Committee, which are answered. In addition, at the end of the review clarifications are given if any of the members of the Committee still have questions or issues in respect of which they have not been provided with an answer.

At the end of the meeting the recommendations of the committee are discussed and accepted. The recommendation of the Committee is passed to the Company's Board of Directors in writing.

On March 22, 2016, an addition meeting of the Financial Statements Committee was held, within the framework of which the manner of the implementation of IFRS 15 and its ramifications for the Company’s financial statements was discussed, as was the examination that was performed by Electra Investments for each of the entrepreneurial real estate projects.

In addition to the members of the Financial Statements Committee, as aforesaid, Isaac Nissim (the Company's Chief Financial Officer), Simi Mental (the Corporate Controller), Nechamia Hetzkavivh (the Company Secretary), Hillel Lavi (the Internal Auditor) and the Company's External Auditor, were all invited to the meeting of the Financial Statements Committee, which was held on March 9, 2016, which they attended.

In addition to the members of the Financial Statements Committee, as aforesaid, Isaac Nissim (the Company's Chief Financial Officer), Simi Mental (the Corporate Controller), Nechamia Hetzkavivh (the Company Secretary), Eli Vessily (the Chief Financial Officer of Elco Ltd.) and the Company's External Auditor, were all invited to the meeting of the Financial Statements Committee, which was held on March 22, 2016, which they attended.

A meeting of the Board of Directors was held on March 28, 2016, during the course of which Itamar Deutscher (the Company's Chief Executive Officer) and Isaac Nissim (the Chief Financial Officer) reviewed the Group's financial results, and this included the presentation of a comparison between the reporting period and the comparative periods.

Sufficient time is given for the presentation of questions in respect of the financial statements and for the giving of answers insofar as this is required. In addition, the Chairman of the Financial Statements Committee presents the recommendations of the Financial Statements Committee to the members of the Board of Directors. At the end of the discussion and after it has been clarified that the financial statements properly reflect the state of the Company’s affairs and the results of its activities, a vote is held on the approval of the financial statements.

The recommendations of the Financial Statements Committee were passed to the Board of Directors for review 11 business days before it convened. In the assessment of the Board of directors, the period of time for the receipt of the recommendation of the Committee is reasonable in the light of the scope and the complexity of the recommendation.

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

THE BOARD

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

March 28, 2016

In this Report of the Board of Directors for the year ended December 31, 2015, 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, 2015 (US$ 1.- = NIS 3.902).

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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, 2015. 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, 2015. We have also audited, in accordance with generally accepted auditing standards in Israel, the Company's consolidated financial statements as of December 31, 2015 and 2014 and for each of the three years in the period ended December 31, 2015, and our opinion, dated March 28, 2016 included an unqualified opinion on those financial statements.

Tel-Aviv

March 28, 2016

KOST FORER GABBAY & KASIRER
Certified Public Accountants

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Building a better working world

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, 2015 and 2014 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, 2015. 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 4% and approximately 6% of the total consolidated assets as of December 31, 2015 and 2014, respectively, and whose revenues constitute approximately 6%, approximately 4% and approximately 2% of the total consolidated revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Furthermore, we did not audit the financial statements of certain entities accounted for at equity, the investment in which amounted to approximately US$ 49,304 thousand, approximately US$ 51,726 thousand as of December 31, 2015 and 2014, respectively, and the Company's share of their profits (losses) amounted to approximately US$ 2,294 thousand, approximately US$ 2,243 thousand and US$ (878) thousand for each of the years ended December 31, 2015, 2014 and 2013, 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, 2015 (see Note 4 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, 2015 and 2014 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, 2015 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, 2015, 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 28, 2016 included an unqualified opinion on the effective maintenance of those components.

Tel-Aviv

March 28, 2016

KOST FORER GABBAY & KASIRER
Certified Public Accountants

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	December 31	
	(**) 2015	2014
	U.S. Dollars in thousands	
Current assets		
Cash and cash equivalents	154,926	119,572
Investments, restricted cash and deposit in trust	29,004	18,423
Trade receivables	180,821	157,489
Other receivables	37,960	38,378
Income receivable from works under construction contracts	174,108	(*)140,956
Inventory	26,830	29,258
Inventories of real estate and rights in real estate	62,896	34,260
Income-generating real estate held for sale	-	76,422
	666,545	614,758
Non-current assets		
Investments in entities accounted for at equity	131,660	120,555
Other Long-term receivables	3,859	5,322
Fixed assets, net	37,903	34,779
Goodwill and other intangible assets, net	92,097	91,884
Receivables for concession for the provision of services	27,994	26,822
Long-term inventories of real estate	16,003	19,071
Deferred taxes	4,572	10,475
	314,088	308,908
	980,633	923,666

(*) Reclassified, see Note 2.

(**) See Note 3 regarding the initial adoption of IFRS 15.

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

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
CONVENIENCE TRANSLATION INTO US DOLLARS

	December 31	
	(**) 2015	2014
	U.S. Dollars in thousands	
Current liabilities		
Credit from banking entities and others	11,268	16,914
Loan to finance entrepreneurial real estate	31,208	3,186
Current maturities of bonds	24,416	20,558
Trade payables	250,362	227,542 (*)
Other payables	99,456	93,317
Liabilities in respect of works under construction contracts	106,550	71,928
Liabilities in respect of income-generating real estate held for sale	-	49,666
	523,260	483,111
Non-current liabilities		
Liabilities to banking entities	13,122	21,980
Bonds	166,088	147,767
Other long-term liabilities	26,826	18,295
Employee benefit liabilities, net	9,171	8,490
Deferred taxes	25,576	26,139
	240,783	222,671
Equity attributed to shareholders in the company		
Share capital	30,114	30,111
Share premium	83,027	81,723
Capital reserves on translation differences in investee companies and other reserves	(78,740)	(54,384)
Treasury shares	(7,347)	(6,628)
Retained earnings	180,959	159,280
	208,013	210,102
Non-controlling interests	8,577	7,782
Total equity	216,590	217,884
	980,633	923,666

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

(*) Reclassified, see Note 2.

(**) See Note 3 regarding the initial adoption of IFRS 15.

March 28, 2016			
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		
	(*) 2015	2014	2013
	U.S. Dollars in thousands (except per share data)		
Revenues from the performance of works and the provision of services	1,199,172	1,004,549	900,688
Cost of works and services	(1,107,703)	(914,997)	(816,164)
Gross profit	91,469	89,552	84,524
Adjustment of fair value of income-generating real estate	-	286	1,717
Administrative and general expenses	(40,394)	(36,916)	(35,161)
Selling and marketing expenses	(6,238)	(5,722)	(6,049)
Company's share of the profits of entities accounted for at equity, net	13,035	7,130	2,368
Other income (expenses), net	(608)	(786)	585
	(34,205)	(36,008)	(36,540)
Operating income	**57,264**	**53,544**	**47,984**
Financing income	9,945	5,979	8,179
Financing expenses	(17,841)	(15,089)	(20,182)
Financing expenses, net	(7,896)	(9,110)	(12,003)
Income before taxes on income	**49,368**	**44,434**	**35,981**
Taxes on income	(11,917)	(11,835)	(10,683)
Income from continuing operations	37,451	32,599	25,298
Income from discontinued operations, net	-	-	13,980
Net income	**37,451**	**32,599**	**39,278**
Net income attributable to:			
Shareholders in the Company	36,872	31,770	37,830
Non-controlling interests	579	829	1,448
	37,451	32,599	39,278
Net earnings per share attributable to shareholders in the company (in U.S. Dollars):			
Basic net earnings per share:			
From continuing operations	10.30	8.90	6.72
From discontinued operations	-	-	3.94
	10.30	8.90	10.66
Diluted net earnings per share:			
From continuing operations	10.28	8.71	6.42
From discontinued operations	-	-	3.90
	10.28	8.71	10.32

(*) See Note 3 regarding the initial adoption of IFRS 15.

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		
	(*) 2015	2014	2013
	U.S. Dollars in thousands		
Net income	37,451	32,599	39,278
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	(166)	1,239	400
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	(23,485)	(26,042)	(13,395)
Gain (loss) from hedging transactions, net	(797)	565	701
Total other comprehensive loss	(24,448)	(24,238)	(12,294)
Total comprehensive income	13,003	8,361	26,984
Comprehensive income attributable to:			
Shareholders in the Company	12,423	7,533	25,532
Non-controlling interests	580	828	1,452
	13,003	8,361	26,984

(*) See Note 3 regarding the initial adoption of IFRS 15.

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, 2015	**30,111**	**81,723**	**159,280**	**1,501**	**1,320**	**348**	**(57,553)**	**(6,628)**	**210,102**	**7,782**	**217,884**
Changes following the initial implementation of IFRS 15 (see Note 3).	-	-	1,084	-	-	-	-	-	1,084	-	1,084
Balance as of January 1, 2015 following the initial implementation of IFRS 15	30,111	81,723	160,364	1,501	1,320	348	(57,553)	(6,628)	211,186	7,782	218,968
Net income	-	-	36,872	-	-	-	-	-	36,872	579	37,451
Other comprehensive income (loss):											
Gain (loss) on the re-measurement of defined benefit plans, net	-	-	-	-	-	(167)	-	-	(167)	1	(166)
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(23,485)	-	(23,485)	-	(23,485)
Gain on hedging transactions, net	-	-	-	-	(797)	-	-	-	(797)	-	(797)
Total other comprehensive income (loss)	-	-	-	-	(797)	(167)	(23,485)	-	(24,449)	1	(24,448)
Total comprehensive income (loss)	**-**	**-**	**36,872**	**-**	**(797)**	**(167)**	**(23,485)**	**-**	**12,423**	**580**	**13,003**
Exercise of option warrants into shares	3	1,304	-	(1,374)	-	-	-	70	3	-	3
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(128)	(128)
Initially consolidated company	-	-	-	-	-	-	-	-	-	343	343
Purchase of treasury shares, net	-	-	-	-	-	-	-	(789)	(789)	-	(789)
Cost of share-based payment	-	-	-	1,467	-	-	-	-	1,467	-	1,467
Dividend to shareholders in the company	-	-	(16,277)	-	-	-	-	-	(16,277)	-	(16,277)
Balance at December 31, 2015	**30,114**	**83,027**	**180,959**	**1,594**	**523**	**181**	**(81,038)**	**(7,347)**	**208,013**	**8,577**	**216,590**

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, 2014	**30,104**	**79,666**	**145,450**	**3,906**	**755**	**(892)**	**(31,511)**	**(5,819)**	**221,659**	**6,553**	**228,212**
Net income	-	-	31,770	-	-	-	-	-	31,770	829	32,599
Other comprehensive income (loss):											
Gain (loss) on the re-measurement of defined benefit plans, net	-	-	-	-	-	1,240	-	-	1,240	(1)	1,239
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(26,042)	-	(26,042)	-	(26,042)
Gain on hedging transactions, net	-	-	-	-	565	-	-	-	565	-	565
Total other comprehensive income (loss)	-	-	-	-	565	1,240	(26,042)	-	(24,237)	(1)	(24,238)
Total comprehensive income (loss)	**-**	**-**	**31,770**	**-**	**565**	**1,240**	**(26,042)**	**-**	**7,533**	**828**	**8,361**
Exercise of option warrants into shares	7	2,057	-	(2,899)	-	-	-	842	7	-	7
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(16)	(16)
Initially consolidated company	-	-	-	-	-	-	-	-	-	417	417
Purchase of treasury shares, net	-	-	-	-	-	-	-	(1,651)	(1,651)	-	(1,651)
Cost of share-based payment	-	-	-	494	-	-	-	-	494	-	494
Dividend to shareholders in the company	-	-	(17,940)	-	-	-	-	-	(17,940)	-	(17,940)
Balance at December 31, 2014	**30,111**	**81,723**	**159,280**	**1,501**	**1,320**	**348**	**(57,553)**	**(6,628)**	**210,102**	**7,782**	**217,884**

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, 2013	**30,103**	**79,674**	**120,434**	**3,040**	**54**	**(1,288)**	**(18,116)**	**(5,946)**	**207,955**	**5,114**	**213,069**
Net income	-	-	37,830	-	-	-	-	-	37,830	1,448	39,278
Other comprehensive income (loss):											
Gain on the re-measurement of defined benefit plans, net	-	-	-	-	-	396	-	-	396	4	400
Adjustments deriving from the translation of financial statements of foreign operations, net	-	-	-	-	-	-	(13,395)	-	(13,395)	-	(13,395)
Gain on hedging transactions, net	-	-	-	-	701	-	-	-	701	-	701
Total other comprehensive income (loss)	-	-	-	-	701	396	(13,395)	-	**(12,298)**	4	(12,294)
Total comprehensive income (loss)	**-**	**-**	**37,830**	**-**	**701**	**396**	**(13,395)**	**-**	**25,532**	**1,452**	**26,984**
Exercise of option warrants into shares	1	(8)	-	(177)	-	-	-	185	1	-	1
Dividend to non-controlling interests	-	-	-	-	-	-	-	-	-	(13)	(13)
Purchase of treasury shares, net	-	-	-	-	-	-	-	(58)	(58)	-	(58)
Cost of share-based payment	-	-	-	1,043	-	-	-	-	1,043	-	1,043
Dividend to shareholders in the company	-	-	(12,814)	-	-	-	-	-	(12,814)	-	(12,814)
Balance at December 31, 2013	**30,104**	**79,666**	**145,450**	**3,906**	**755**	**(892)**	**(31,511)**	**(5,819)**	**221,659**	**6,553**	**228,212**

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		
	(**) 2015	2014	2013
	U.S. Dollars in thousands		
Cash flows from operating activities:			
Net income	37,451	32,599	39,278
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	(13,035)	(7,130)	(2,368)
Dividend received from entities accounted for at equity	2,967	2,747	6,086
Depreciation and amortization	12,282	10,890	10,616
Increase (decrease) in employee benefit liabilities, net	298	429	(697)
Adjustment of fair value of income-generating real estate	-	(286)	(1,717)
Loss (gain) on the disposal of fixed assets and investments, net	(732)	340	(2,348)
Decrease (increase) in the value of marketable securities, net	41	(100)	(43)
Cost of share-based payment	1,467	494	1,043
Deferred taxes, net	4,528	(389)	5,696
Erosion (revaluation) of long-term receivables and payables, long-term loans and bonds, net	891	(3,202)	5,739
Adjustments in respect of income from discontinued operations, net	-	-	(13,980)
Changes in asset and liability items:			
Decrease (increase) in trade receivables	(8,113)	(18,935)	294
Decrease (increase) in other receivables and in respect of concession for the provision of services	3,016	(2,043)	1,913
Increase in income receivable from works under construction contracts	(35,465)	(39,024) (*)	(20,480) (*)
Decrease (increase) in inventory	2,217	(3,278)	1,480
Decrease in inventories and inventories of real estate (before acquisition of and investment in land)	5,893	2,482	3,263
Increase in trade payables	15,713	43,771 (*)	22,184 (*)
Increase (decrease) in other payables	(1,268)	13,982	(4,345)
Increase in liabilities in respect of works under construction contracts	36,107	2,531	8,728
	26,807	3,279	21,064
Net cash generated by continuing operating activities (before acquisition of and investment in land)	64,258	35,878	60,342
Acquisition of and investment in land (***)	(35,347)	-	-
Net cash generated by continuing operating activities	28,911	35,878	60,342
Net cash absorbed by discontinued operating activities	-	-	(1,442)
Net cash generated by operating activities	28,911	35,878	58,900

(*) Reclassified, see Note 2.
(**) See Note 3 regarding the initial adoption of IFRS 15.
(***) 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		
	2015	2014	2013
	U.S. Dollars in thousands		
Cash flows from investment activities:			
Investment in entities accounted for at equity, net	(10,867)	(9,581)	(12,955)
Investments, restricted cash and deposit in trust, net	(2,838)	2,402	1,713
Purchase of fixed assets and intangible assets	(12,688)	(9,185)	(11,272)
Decrease (increase) in receivables for a concession arrangement for the provision of services	1,432	1,481	(850)
Acquisition of initially consolidated companies (a)	(5,107)	(2,770)	(2,080)
Proceeds from the sale of fixed assets	1,112	516	3,156
Proceeds from the sale of (investment in) marketable securities, net	(7,407)	25,717	(25,673)
Collection of long-term receivables (extension of long-term loans), net	10	223	109
Proceeds from the disposal of income - generating real estate	26,012	-	-
Net cash generated (absorbed) by continuing investment activities	(10,341)	8,803	(47,852)
Consideration from the disposal of discontinued operation (b)	-	-	32,083
Net cash absorbed by discontinued investment activities	-	-	(597)
Net cash generated (absorbed) by investment activities	(10,341)	8,803	(16,366)
Cash flows from financing activities:			
Issuance of share capital	3	7	1
Dividend paid to non-controlling interests and to shareholders in the company	(16,405)	(17,956)	(12,827)
Acquisition of treasury shares, net	(789)	(1,651)	(58)
Issuance of bonds, net	47,342	61,091	16,292
Receipt of long-term loans	436	51,423	5,268
Repayment of long-term loans	(14,077)	(40,295)	(26,907)
Repayment of bonds	(24,113)	(15,242)	(19,421)
Short-term credit from banking entities and others and for financing entrepreneurial real estate, net	25,394	(44,076)	(2,195)
Cash flows generated (absorbed) by continuing financing activities	17,791	(6,699)	(39,847)
Cash flows absorbed by discontinued financing activities	-	-	(77)
Net cash generated (absorbed) by financing activities	17,791	(6,699)	(39,924)
Exchange differences in respect of cash and cash equivalents from continuing operations	(1,007)	49	(3,551)
Exchange differences in respect of cash and cash equivalents from discontinued operations	-	-	(316)
Exchange differences on balances of cash and cash equivalents	(1,007)	49	(3,867)
Less balance of cash and cash equivalents in respect of income-generating real estate held for sale at the end of the year	-	(728)	-
Increase (decrease) in cash and cash equivalents	35,354	37,303	(1,257)
Cash and cash equivalents at the beginning of the year	119,572	82,269	83,526
Cash and cash equivalents at the end of the year	154,926	119,572	82,269

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		
	2015	**2014**	**2013**
	U.S. Dollars in thousands		
(a) <u>The initial consolidation of a consolidated companies</u>			
Assets and liabilities of the consolidated companies at the time of acquisition:			
Working capital, net (excluding cash and cash equivalents)	(3,249)	(10)	(1,315)
Investment in marketable securities and deposits in trust	(574)	-	-
Fixed assets, net	(1,098)	(40)	(706)
Investment in entities accounted for at equity	-	1,367	-
Intangible assets, net	(5,356)	(2,900)	(2,527)
Goodwill	(4,631)	(2,146)	-
Deferred taxes	2,429	190	240
Liability for conditional consideration	2,214	-	1,537
Liability for put option for non-controlling interests	2,943	-	-
Other long-term liabilities	1,872	352	691
Non-controlling interests	343	417	-
	(5,107)	(2,770)	(2,080)
(b) <u>Consideration from the disposal of discontinued operation</u>			
Assets and liabilities of discontinued operations at the time of the sale:			
Working capital (excluding cash and cash equivalents)	-	-	14,496
Fixed assets, net	-	-	2,789
Intangible assets, net	-	-	1,584
Deferred taxes	-	-	126
Non-current liabilities	-	-	(892)
Gain on the sale of consolidated companies	-	-	13,980
	-	-	32,083
(c) <u>Additional cash flow information:</u>			
Cash paid during the year for:			
Interest	10,628	9,982	11,765
Taxes on income	8,636	12,184	7,410
Cash received during the year for:			
Interest	2,671	2,509	2,014
Taxes on income	986	891	1,171

*) 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 and trade 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 electrical and plumbing systems and central air conditioning systems (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 Russia, Bulgaria, Romania, England, Angola, Equatorial Guinea, Poland and Belarus, directly or via subsidiary companies and partnerships abroad.

- **The service, maintenance and trade segment:** The Group's activities in this segment complement its activities in the construction and infrastructure projects segment, both in Israel and abroad. 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 the completion of works and refurbishment works 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. Sometimes, the very fact that the Group has set up a particular project affords it an advantage in receiving the maintenance contract for that project. Similarly, within the framework of this segment the Company is engaged, in the importing and marketing of light bulbs and electrical switching equipment.

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. During the course of the year 2006, the Company began broad based operations in the entrepreneurial field for residential construction 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, 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. During the reporting period, a number of plots of land were acquired in Israel within the context of the Company'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 and trade 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 – Reclassification

The Company has executed a reclassification in respect of the balance of income receivable from works under construction contracts and the balance of trade payables in order to provide a fairer reflection of their substance. Accordingly, an amount of US$ 13,215 thousand have been reclassified as of December 31, 2014.

Note 3 – New standards that have been implemented in the reporting period

IFRS 15 – Revenue from contracts with customers

The Standard was published by the IASB in May 2014. The Standard enables an election to be made for the partial retrospective implementation with certain reliefs, in accordance with which the Standard is only to be implemented in respect of new contracts, which have not yet been completed as of the start of the first reporting period in which the Standard is implemented and the restatement of the comparative figures will not be required.

The Standard presents one model for the treatment of the recognition of revenues from contracts with customers and it replaces IAS 18 – Revenue, IAS 11 – Construction contracts, IFRIC 13 – Customer loyalty programs, IFRIC 15 – Agreements for the construction of real estate, IFRIC 18 – Transfers of assets from customers and SIC 31 – Revenue – Barter transactions involving advertising services. In accordance with the new standard, the amount and the timing of the recognition of revenue will be determined in accordance with a five-stage model, which is to be implemented in respect of revenue generated from contracts with customers, as follows:

Stage 1 – The identification of the contract with the customer, including relating to a collection of contracts and the treatment of changes (modifications) in contracts.

Stage 2 – The identification of the number of distinct performance obligations in the contract.

Stage 3 – The determination of the transaction price, including relating to a variable consideration, a significant financing component, non-cash consideration and consideration that is payable to the customer.

Stage 4 – The allocation of the transaction price to all of the distinct performance obligation on the basis of the relative distinct selling price, using observed prices were available or using estimates and assessments.

Stage 5 – The recognition of the revenue when a performance obligation is satisfied, with a distinction being made between the satisfaction of an obligation at a specific time, and the performance of the obligation over time.

In light of the publication of the Standard, as aforesaid, the Group has examined the early adoption of the Standard. As part of this process, the Group companies have conducted a broad examination of the ramifications that are expected from the implementation of the Standard. In light of the checks that have been conducted, the Group has decided to adopt the Standard by way of early adoption as from the annual financial statements for the year 2015, since the Group believes that the Standard provides a better reflection of the Group's business operations. The Group has adopted the Standard in accordance with the partial retrospective implementation approach with certain reliefs, in other words, only in respect of contracts that had not yet been completed as of the beginning of the period (January 1, 2015). The partial retrospective implementation approach effectively requires the recognition of the cumulative impact of the implementation of the Standard on contracts that had not yet been completed as of January 1, 2015, by means of the adjustment of the opening balance of the retained earnings as of that time. The main impact of the initial implementation of the Standard is in relation to the Group's entrepreneurial activities in connection with the sale of residential apartments, offices and commercial space in Israel. In accordance with the new Standard, as aforesaid, the Group has recognized revenues in respect of contracts in Israel over time, which is different from the policy that was implemented under IAS 18 and IFRIC 15, in accordance with which the Group only recognized revenues when the apartment was handed over to the purchaser.

Note 3 – <u>IFRS 15 – Revenue from contracts with customers</u> (continued)

The following is the cumulative impact of the initial implementation on the equity as of January 1, 2015 in respect of contracts that had not yet been completed:

<u>In the consolidated statements of financial position</u>

As of January 1, 2015	In accordance with the previous policy	The change	In accordance with IFRS 15
Retained earnings	159,280	1,084	160,364

The following tables summarize the impact on the statement of financial position as of December 31, 2015 and on the statements of profit or loss and of comprehensive income for the year ended on that date, on the assumption that the previous policies for the recognition of revenues were to have continued during the period:

As of December 31, 2015	In accordance with the previous policy	The change	In accordance with IFRS 15
Investments in entities accounted for at equity, net	128,079	3,581	131,660
Deferred taxes, net	(20,845)	(159)	(21,004)
Retained earnings	177,537	3,422	180,959

<u>In the consolidated statements of profit or loss and of comprehensive income</u>

For the year ended December 31, 2015	In accordance with the previous policy	The change (*)	In accordance with IFRS 15
Revenues	1,199,172	-	1,199,172
Cost of sales	(1,108,240)	537	(1,107,703)
Gross profit	90,932	537	91,469
Operating expenses	(47,240)	-	(47,240)
Company's share of the profits of entities accounted for at equity, net	11,077	1,958	13,035
Operating income	54,769	2,495	57,264
Financing income	9,960	(15)	9,945
Financing expenses	(17,841)	-	(17,841)
Taxes on income	(11,775)	(142)	(11,917)
Net income	35,113	2,338	37,451
Comprehensive income	10,665	2,338	13,003
Basic earnings per share	9.65	0.65	10.3
Diluted earnings per share	9.63	0.65	10.28

(*) As aforesaid, the main change is a consequence of the transition to the recognition of revenues over time in the field of entrepreneurial real estate in companies that are accounted for at equity, as compared with the recognition of revenues at the time of the handing over of the proeprty in accordance with the provisions of the previous standards.

Note 4 – 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, 2015 (NIS 3.902 = 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.

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