

AFCON HOLDINGS LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2017

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To the shareholders of
Afcon Holdings Ltd.

We have audited the consolidated statements of financial position of Afcon Holdings Ltd. ("the Company") and its subsidiaries as of December 31, 2017 and 2016 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years ended December 31, 2017, in accordance with generally accepted auditing standards in Israel.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 0.7% and 0.6% of total consolidated assets as of December 31, 2017 and 2016, respectively, and whose revenues constitute approximately 2%, 2% and 2% of total consolidated revenues for the years ended December 31, 2017, 2016 and 2015, respectively. Furthermore, we did not audit the financial statements of certain associate that is presented at equity the investment in which amounted to 39,350 thousand NIS and 33,717 thousand NIS as of December 31, 2017 and 2016, respectively, and the Company's share of its earnings amounted to 11,464 thousand NIS 9,288 thousand NIS and 6,317 thousand NIS for the years ended December 31, 2017, 2016 and 2015, 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.

Based on our audits in our report dated March 25, 2018, we expressed an unqualified opinion on those statements.

The accompanying financial statements, which are derived from the abovementioned financial statements, are condensed financial statements and do not include disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the accompanying financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

Tel-Aviv, Israel
March 25, 2018

Kost Forer Gabbay and Kasierer
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	December 31,		Convenience translation (Note 1)
	2016	2017	December 31, 2017
	N I S		U.S. dollars
	(In thousands)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	287,521	226,749	65,402
Restricted cash	438	-	-
Trade receivables and unbilled receivables, net	634,548	675,185	194,746
Other accounts receivable	36,525	26,576	7,665
Current maturities of Financial asset to concessions projects	6,952	7,219	2,082
Inventories	78,945	70,613	20,367
	<u>1,044,929</u>	<u>1,006,342</u>	<u>290,262</u>
NON-CURRENT ASSETS:			
Deposits a bank	6,427	6,627	1,911
Long term receivables	8,997	9,356	2,699
Investments in companies accounted for at equity	37,313	58,180	16,781
Financial assets to concessions projects	181,948	175,209	50,536
Investment property	7,821	5,975	1,723
Property, plant and equipment, net	87,359	86,179	24,857
Intangible assets	69,661	63,175	18,222
Deferred taxes	12,559	14,618	4,216
	<u>412,085</u>	<u>419,319</u>	<u>120,945</u>
	<u><u>1,457,014</u></u>	<u><u>1,425,661</u></u>	<u><u>411,207</u></u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED BALANCE SHEETS

	December 31,		Convenience translation (Note 1)
	2016	2017	December 31, 2017
	N I S		U.S. dollars
	(In thousands)		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and current maturities loans from banks	43,444	45,014	12,984
Current maturities loans from bank to concessions projects	6,322	6,580	1,898
Current maturities of debentures	55,771	40,444	11,665
Trade payables	399,144	458,184	132,155
Other accounts payable	113,228	83,620	24,119
Customer advances	117,346	73,306	21,144
	<u>735,255</u>	<u>707,148</u>	<u>203,965</u>
NON-CURRENT LIABILITIES:			
Loans from banks	128,754	122,750	35,405
Loan from bank to concessions projects	152,236	145,265	41,899
Debentures	74,036	59,822	17,255
Employee benefit liabilities	3,972	4,018	1,159
Other Liabilities	3,553	3,276	945
Deferred taxes	5,827	1,558	449
	<u>368,378</u>	<u>336,689</u>	<u>97,112</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	28,396	28,396	8,190
Share premium	59,033	59,033	17,027
Treasury shares	(2,087)	(2,087)	(602)
Reserve for transactions with non-controlling interests	(6,421)	(6,421)	(1,852)
Retained earnings	280,184	311,257	89,777
Capital reserve of hedge transactions	(731)	(437)	(126)
Currency translation adjustment	(3,525)	(5,838)	(1,684)
	<u>354,849</u>	<u>383,903</u>	<u>110,730</u>
Non-controlling interests	<u>(1,468)</u>	<u>(2,079)</u>	<u>(600)</u>
Total equity	<u>353,381</u>	<u>381,824</u>	<u>110,130</u>
	<u>1,457,014</u>	<u>1,425,661</u>	<u>411,207</u>

The accompanying note is an integral part of the consolidated financial statements.

March 25, 2018

Date of approval of the
financial statements

Yaron Karisi
Chief Executive Officer

Eran Konfino
Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,			Convenience translation (Note 1)
	2015	2016	2017	Year ended December 31, 2017
	NIS			U.S. dollars
	(In thousands, except per share data)			
Revenues from works performed, sales and services	1,332,805	1,435,462	1,500,083	432,675
Cost of works, sales and services	1,124,882	1,222,712	1,298,294	374,472
Gross profit	207,923	212,750	201,789	58,203
Increase (decrease) in value of investment property	(155)	-	469	135
Selling and marketing expenses	(53,663)	(50,499)	(40,910)	(11,800)
General and administrative expenses	(77,752)	(80,715)	(82,038)	(23,663)
Research and development expenses	(3,989)	(4,531)	(5,805)	(1,673)
Company's share of earnings of companies accounted for at equity	7,492	12,649	10,026	2,892
Other income (expenses)	12,320	(15,978)	(10,337)	(2,982)
Financial expenses	(18,614) ^{*)}	(20,470) ^{*)}	(23,215)	(6,696)
Financial income	4,567 ^{*)}	2,298 ^{*)}	7,360	2,123
Income before taxes on income	78,129	55,504	57,339	16,539
Taxes on income	15,575	12,323	11,051	3,187
Net income	62,554	43,181	46,288	13,352
Attributable to:				
Equity holders of the Company	63,226	43,861	46,899	13,528
Non-controlling interests	(672)	(680)	(611)	(176)
	62,554	43,181	46,288	13,352
Net earnings per share attributable to equity holders of the Company (in NIS):				
Basic and diluted net earnings	13.80	9.58	10.24	2.95

^{*)} Reclassified.

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended December 31,			Convenience translation (Note 1)
	2015	2016	2017	Year ended December 31, 2017
	N I S			U.S. dollars
	(In thousands)			
Net income	62,554	43,181	46,288	13,352
Other comprehensive income (loss) (net of tax effect):				
<u>Amounts that will not be reclassified subsequently to profit or loss:</u>				
Remeasurement in respect of defined benefit plans, net	(252)	178	(826)	(238)
<u>Amounts that will be reclassified or that are reclassified to profit or loss when specific conditions are met:</u>				
Adjustments arising from translating of financial statements	(971)	(948)	(2,313)	(667)
Gain (loss) from cash flow hedges	(641)	57	(107)	(31)
Amounts transferred to the statement of income for cash flow hedges	1,658	1,634	413	119
Group's share of net other comprehensive income (loss) of companies accounted for at equity	(1,472)	1,150	(12)	(3)
Total other comprehensive income (loss)	(1,678)	2,071	(2,845)	(820)
Total comprehensive income	60,876	45,252	43,443	12,532
Attributable to:				
Equity holders of the Company	61,548	45,932	44,054	12,708
Non-controlling interests	(672)	(680)	(611)	(176)
	60,876	45,252	43,443	12,532

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the Company									
	Share capital	Share premium	Treasury shares	Reserve for cash flow hedges	Reserve for transactions with non-controlling interests	Retained earnings	Currency translation adjustment	Total	Non-controlling interests	Total equity
(In thousands)										
Balance at January 1, 2015	28,396	59,033	(2,087)	(3,117)	(6,421)	210,171	(1,606)	284,369	(116)	284,253
Net (loss) Income	-	-	-	-	-	63,226	-	63,226	(672)	62,554
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(252)	-	(252)	-	(252)
Loss from cash flow hedges	-	-	-	(455)	-	-	-	(455)	-	(455)
Adjustments from translation of financial statements	-	-	-	-	-	-	(971)	(971)	-	(971)
Total comprehensive income (loss)	-	-	-	(455)	-	62,974	(971)	61,548	(672)	60,876
Dividend paid	-	-	-	-	-	(12,000)	-	(12,000)	-	(12,000)
Balance at December 31, 2015	28,396	59,033	(2,087)	(3,572)	(6,421)	261,145	(2,577)	333,917	(788)	333,129
Net (loss) Income	-	-	-	-	-	43,861	-	43,861	(680)	43,181
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	178	-	178	-	178
Gain from cash flow hedges	-	-	-	2,841	-	-	-	2,841	-	2,841
Adjustments from translation of financial statements	-	-	-	-	-	-	(948)	(948)	-	(948)
Total comprehensive income (loss)	-	-	-	2,841	-	44,039	(948)	45,932	(680)	45,252
Dividend paid	-	-	-	-	-	(25,000)	-	(25,000)	-	(25,000)
Balance at December 31, 2016	28,396	59,033	(2,087)	(731)	(6,421)	280,184	(3,525)	354,849	(1,468)	353,381
Net (loss) Income	-	-	-	-	-	46,899	-	46,899	(611)	46,288
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(826)	-	(826)	-	(826)
Gain from cash flow hedges	-	-	-	294	-	-	-	294	-	294
Adjustments from translation of financial statements	-	-	-	-	-	-	(2,313)	(2,313)	-	(2,313)
Total comprehensive income (loss)	-	-	-	294	-	46,073	(2,313)	44,054	(611)	43,443
Dividend paid	-	-	-	-	-	(15,000)	-	(15,000)	-	(15,000)
Balance at December 31, 2017	28,396	59,033	(2,087)	(437)	(6,421)	311,257	(5,838)	383,903	(2,079)	381,284

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Convenience translation into U.S. dollars (Note 1)									
	Share capital	Share premium	Treasury shares	Reserve for cash flow hedges	Reserve for transactions with non-controlling interests	Retained earnings	Currency translation adjustment	Total	Non-controlling interests	Total equity
	(In thousands)									
Balance at January 1, 2017	8,190	17,027	(602)	(211)	(1,852)	80,814	(1,017)	102,349	(424)	101,925
Net Income	-	-	-	-	-	13,528	-	13,528	(176)	13,352
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(238)	-	(238)	-	(238)
Loss from cash flow hedges	-	-	-	85	-	-	-	85	-	85
Adjustments from translation of financial statements	-	-	-	-	-	-	(667)	(667)	-	(667)
Total comprehensive income (loss)	-	-	-	85	-	13,290	(667)	12,708	(176)	12,532
Dividend paid	-	-	-	-	-	(4,327)	-	(4,327)	-	(4,327)
Balance at December 31, 2017	<u>8,190</u>	<u>17,027</u>	<u>(602)</u>	<u>(126)</u>	<u>(1,852)</u>	<u>89,777</u>	<u>(1,684)</u>	<u>110,730</u>	<u>(600)</u>	<u>110,130</u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1)
	2015	2016	2017	Year ended December 31, 2017
	NIS			U.S. dollars
	(In thousands)			
<u>Cash flows from operating activities:</u>				
Net income	62,554	43,181	46,288	13,352
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization	21,394	24,528	19,383	5,591
Loss (gain) from business combination achieved in stages	-	(17,308)	245	71
Gain from sale of affiliated company	(32,809)	-	-	-
Loss from impairment of intangible assets	15,608	10,505	5,474	1,579
Loss from impairment of goodwill	3,000	11,743	-	-
Decrease (increase) in fair value of investment property	155	-	(469)	(135)
Loss (gain) from sale of property, plant and equipment and intangible assets	(515)	441	467	135
Company's share earnings of companies accounted for at equity	(7,492)	(12,649)	(10,026)	(2,892)
Taxes on income	15,575	12,323	11,051	3,187
Change in employee benefit liabilities, net	278	(1,204)	(780)	(225)
Revaluation of loans held by subsidiaries	(3,557)	(704)	-	-
Financing expenses (income) from financial assets to concessions projects	-	555	(84)	(24)
Amortization of financial assets to concessions projects	-	22	88	25
Revaluation of long-term liabilities to banks and debentures, net	(590)	(506)	(1,588)	(458)
Interest expenses, net	17,421	15,213	18,106	5,222
	28,468	42,959	41,867	12,076
Changes in asset and liability items:				
Increase in trade receivables	(77,475)	(18,548)	(42,244)	(12,185)
Decrease (increase) in other accounts receivable including long-term receivables	11,949	(17,481)	10,007	2,886
Decrease (increase) in inventories	(9,342)	2,008	7,985	2,303
Increase in trade payables	77,127	51,038	62,041	17,895
Increase (decrease) in other accounts payable	(7,221)	17,219	(39,016)	(11,254)
Increase (decrease) in customer advances	(21,024)	95,211	(43,602)	(12,576)
	(25,986)	129,447	(44,829)	(12,931)
Cash paid and received during the year for:				
Interest paid	(17,928)	(15,428)	(18,214)	(5,254)
Interest received	507	215	108	31
Taxes paid	(4,983)	(22,683)	(8,447)	(2,436)
Taxes received	60	-	-	-
Dividend received	10,058	1,786	3,913	1,129
	(12,286)	(36,110)	(22,640)	(6,530)
Net cash provided by operating activities	52,750	179,477	20,686	5,967

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1)
	2015	2016	2017	Year ended December 31, 2017
	N I S			U.S. dollars
	(In thousands)			
<u>Cash flows from investing activities:</u>				
Payment for purchase of property, plant, equipment and intangible assets	-	(1,229)	(158)	(46)
Depositing	-	(6,427)	(200)	(58)
Purchase of property, plant and equipment	(3,456)	(12,658)	(10,046)	(2,898)
Proceeds from sale of investment property	-	75,800	-	-
Purchase of investment property	-	(31,067)	-	-
Acquisition of newly consolidated subsidiaries (a)	-	(12,714)	-	-
Proceeds (Investment) from sale of Investment in investee	18,161	(500)	(14,052)	(4,053)
Proceeds from sale of property, plant and equipment	515	109	376	108
Loan to subsidiaries	-	-	(2,500)	(721)
Purchase of intangible assets	(4,416)	(2,594)	(1,710)	(493)
Capitalization of development expenses	(10,211)	(10,473)	(5,590)	(1,612)
Activities of concessions projects-Construction costs	-	(3,862)	-	-
Activities of concessions projects-Repayment of financial assets	-	1,744	7,027	2,027
Net cash provided by (used in) investing activities	<u>593</u>	<u>(3,871)</u>	<u>(26,853)</u>	<u>(7,746)</u>
<u>Cash flows from financing activities:</u>				
Repayment of liability to liquidator	-	(941)	-	-
Dividend paid	(12,000)	(25,000)	(15,000)	(4,327)
Issuance of debentures (less issuance expenses)	-	-	37,393	10,785
Repayment of debentures	(55,346)	(55,346)	(65,346)	(18,848)
Long-term loans from banks	85,000	100,000	30,000	8,653
Long-term loans from banks for Concessions projects	-	10,306	(7,272)	(2,097)
Repayment of long-term loans	(7,190)	(26,221)	(34,014)	(9,811)
Short-term credit from banks, net	5,131	(18,826)	183	53
Net cash provided by (used in) financing activities	<u>15,595</u>	<u>(16,028)</u>	<u>(54,056)</u>	<u>(15,592)</u>
Exchange differences on balances of cash and cash equivalents	<u>415</u>	<u>(153)</u>	<u>(549)</u>	<u>(158)</u>
Increase (decrease) in cash and cash equivalents	69,353	159,425	(60,772)	(17,529)
Cash and cash equivalents at beginning of year	<u>58,743</u>	<u>128,096</u>	<u>287,521</u>	<u>82,931</u>
Cash and cash equivalents at end of year	<u><u>128,096</u></u>	<u><u>287,521</u></u>	<u><u>226,749</u></u>	<u><u>65,402</u></u>

The accompanying note is an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1)
	2015	2016	2017	Year ended December 31, 2017
	NIS			U.S. dollars
	(In thousands)			
(a) <u>Acquisition of initially consolidated subsidiaries</u>				
Working capital (except cash and cash equivalents)	-	(84,665)	(863)	(249)
Cash and cash equivalents	-	286	863	249
Financial assets to Concessions projects	-	187,337	-	-
Intangible assets	-	37,982	-	-
Deferred taxes	-	(9,839)	-	-
Long term loans from bank	-	(143,815)	-	-
			-	-
	-	(12,714)	-	-
(b) <u>Significant non-cash transactions:</u>				
Purchase of property, plant and equipment on credit	576	191	98	28
Purchase of intangible assets on credit	653	-	-	-

The accompanying note is an integral part of the consolidated financial statements.

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- CONVENIENCE TRANSLATION INTO U.S. DOLLARS

The financial statements as of December 31, 2017 and for the year then ended have been translated into dollars using the exchange rate as of that date (\$ 1 = NIS 3.467). The translation was made solely for the convenience of the reader.

The amounts presented in these financial statements should not be construed to represent amounts receivable or payable in dollars or convertible into dollars, unless otherwise indicated in these financial statements.

The accompanying financial statements, which are derived from the abovementioned financial statements, are condensed financial statements and do not include disclosures required by International Financial Reporting Standards. If the omitted disclosures were included in the accompanying financial statements, they might influence the user's conclusions about the consolidated financial position, results of operations and cash flows of the Company and subsidiaries. Accordingly, the accompanying financial statements are not designed for those who are not informed about such matters.

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

Appendix A:- List of subsidiaries, common control and affiliate companies

	Percent Holding	
	Shares granting voting rights	Shares granting rights to profits
Afcon Technologies Ltd	100%	100%
Afcon Contracting & Services Ltd.	100%	100%
Afcon Construction LTD	100%	100%
Ateka Ltd	100%	100%
Eres Refrigeration & Engineering Manufacture & Service Ltd	100%	100%
Afcon Real-Estate Center Ltd	100%	100%
Afcon Control & Automation Ltd.	100%	100%
Wanger B.V(Holland)	100%	100%
Tadiran Telecom Technologies (2011) Ltd.	100%	100%
Tadiran Telecom (TTL) Limited Partner	100%	100%
Tadiran Telecom Inc. USA	100%	100%
Afcon Hydromx LTD	100%	100%
Afcon Gas Technologies (Previous ARG - Afcon RMG Gas Technologies JV)	50%	50%
Tadiran Telcom Communications Services in Israel Limited Partner	100%	100%
Tadiran Telcom Communications Services in Israel Ltd.	100%	100%
Afcon. Wind Energy Ltd (Previous Afcon E.B Wind Energy)	100%	100%
Sirin & Gilboa Wind Farms	100%	100%
Wind Farm Management Sirin Ltd	100%	100%
Wind Farm Sirin 2011 Limited Partner	100%	100%
Afcon SPGC Ltd	100%	100%
A.T. Afek Investments Ltd	100%	100%
G.M Afcon Security Technologies Limited Partnership	70%	70%
Afcon M&E Gmbh (Germany)	100%	100%
Afcon-El-Mor Joint Venture	100%	100%
Afcon PV KZ LLP	85%	75%
Afcon Solaer Mangement (2012) Ltd.	50%	50%
Afcon Solaer Renewable Energy Limited Partnership	50%	50%
A.A. Atidim Project	50%	50%
Afcon Electra Romania SA(Romania)	50%	50%
NGgear Ltd.	51%	51%
Hizok and binui Bialik 6 Raanna LTD	49%	49%
Afcon Agadim Limited Partnership	50%	70%
BST- Afcon Global Tower, Limited Partnership	50%	35%
T.I.B.A. Research and Development (1986) Ltd	30%	30%
T.I.B.A LLC (U.S.A)	30%	30%
Signature Control Systems LLC (U.S.A)	30%	30%
Magosos system Ltd	38%	38%
Kunming Tadiran Telecommunication Equipment Co. Ltd - Joint Venture (China)	42.7%	51%