

AFCON HOLDINGS LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2013

INDEX

	<u>Page</u>
Auditors' Letter	2
Consolidated Balance Sheets	3 - 4
Consolidated Statements of Income	5
Consolidated Statements of Comprehensive Income	6
Consolidated Statements of Changes in Equity	7 - 8
Consolidated Statements of Cash Flows	9 - 11
Notes to Consolidated Financial Statements	12
Appendix A:- List of subsidiaries, common control and affiliate companies	13

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, 2013 and 2012 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years ended December 31, 2013, 2012 and 2011 in accordance with generally accepted auditing standards in Israel.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 2% and 3% of total consolidated assets as of December 31, 2013 and 2012, respectively, and whose revenues constitute approximately 3%, 5% and 6% of total consolidated revenues for the years ended December 31, 2013, 2012 and 2011, respectively. Furthermore, we did not audit the financial statements of certain associate that is presented at equity the investment in which amounted to 7,771 thousand NIS and 6,980 thousand NIS as of December 31, 2013 and 2012, respectively, and the Company's share of its earnings (losses) amounted to 1,316 thousand NIS, 1,059 thousand NIS and (1,164) thousand NIS for the years ended December 31, 2013, 2012 and 2011, 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 27, 2014, 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 27, 2014

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

CONSOLIDATED BALANCE SHEETS

	December 31,		Convenience translation (Note 1)
	2012 *)	2013	December 31, 2013
	N I S		U.S. dollars
	(In thousands)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	45,727	106,266	30,615
Short-term investments	30,219	-	-
Trade receivables	364,259	428,230	123,374
Other accounts receivable	34,745	32,964	9,497
Inventories	103,144	87,202	25,123
	<u>578,094</u>	<u>654,662</u>	<u>188,609</u>
NON-CURRENT ASSETS:			
Receivables	17,228	14,138	4,073
Investments in companies accounted for at equity	10,714	12,064	3,476
Investment property	51,000	51,125	14,729
Property, plant and equipment	96,156	90,627	26,110
Intangible assets	48,781	59,362	17,102
Deferred taxes	21,260	21,571	6,215
	<u>245,139</u>	<u>248,887</u>	<u>71,705</u>
	<u><u>823,233</u></u>	<u><u>903,549</u></u>	<u><u>260,314</u></u>

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

CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>		Convenience translation (Note 1)
	<u>2012</u> *)	<u>2013</u>	<u>December 31,</u> <u>2013</u>
	N I S		U.S. dollars
	(In thousands)		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	143,460	94,821	27,318
Current maturities of debentures	25,786	25,819	7,438
Trade payables	183,987	230,853	66,509
Other accounts payable	70,768	70,869	20,418
Provision for claims and contingencies	7,344	7,086	2,041
Customer advances	21,449	21,783	6,276
	<u>452,794</u>	<u>451,231</u>	<u>130,000</u>
NON-CURRENT LIABILITIES:			
Loans from banks and others	25,570	9,625	2,773
Debentures	103,487	176,507	50,853
Employee benefit liabilities	5,032	5,326	1,534
Liability for acquisition of activity	2,403	1,371	395
Other derivatives	2,837	2,527	728
Deferred taxes	2,657	2,833	816
	<u>141,986</u>	<u>198,189</u>	<u>57,099</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	28,396	28,396	8,181
Share premium	59,033	59,033	17,007
Treasury shares	(2,087)	(2,087)	(601)
Reserve for transactions with non-controlling interests	(5,663)	(5,663)	(1,632)
Retained earnings	150,147	176,721	50,914
Currency translation adjustment	(993)	(2,090)	(602)
	<u>228,833</u>	<u>254,310</u>	<u>73,267</u>
Non-controlling interests	<u>(380)</u>	<u>(181)</u>	<u>(52)</u>
<u>Total equity</u>	<u>228,453</u>	<u>254,129</u>	<u>73,215</u>
	<u>823,233</u>	<u>903,549</u>	<u>260,314</u>

*) Reclassified.

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

March 27, 2014

Date of approval of the
financial statements


Jerry Schenirer
Chief Executive Officer



Eran Konfino
Chief Financial Officer

CONSOLIDATED STATEMENTS OF INCOME

	Year ended December 31,			Convenience translation (Note 1)
	2011 *)	2012 *)	2013	Year ended December 31, 2013
	NIS			U.S. dollars
(In thousands, except per share data)				
Revenues from works performed, sales and services	906,927	973,527	1,056,844	304,477
Cost of works, sales and services	721,439	793,084	874,284	251,882
Gross profit	185,488	180,443	182,560	52,595
Increase in value of investment property	3,002	4,930	125	36
Selling and marketing expenses	(56,473)	(58,864)	(57,491)	(16,563)
General and administrative expenses	(73,654)	(74,670)	(75,211)	(21,668)
Research and development expenses	(9,413)	(8,198)	(5,838)	(1,682)
Gain (loss) from sale of property, plant and equipment	81	(240)	(38)	(11)
Company's share of earnings (losses) of companies accounted for at equity	(1,828)	(6,976)	4,458	1,284
Other income	10,081	16,184	2,216	638
Financial expenses	(21,418)	(20,083)	(21,274)	(6,129)
Financial income	1,779	2,458	1,380	398
Income before taxes on income	37,645	34,984	30,887	8,899
Taxes on income	91	2,314	5,009	1,444
Net income	37,554	32,670	25,878	7,455
Attributable to:				
Equity holders of the Company	36,495	32,815	26,629	7,671
Non-controlling interests	1,059	(145)	(751)	(216)
	37,554	32,670	25,878	7,455
Net earnings per share attributable to equity holders of the Company (in NIS):				
Basic and diluted net earnings	7.901	7.064	5.704	1.643

*) 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)
	2011 *)	2012 *)	2013	Year ended December 31, 2013
	NIS			U.S. dollars
	(In thousands)			
Net income	37,554	32,670	25,878	7,455
Other comprehensive loss (net of tax effect):				
Amounts that will not be reclassified subsequently to profit or loss:				
Remeasurement in respect of defined benefit plans, net	(577)	(874)	(55)	(16)
Amounts that will be reclassified or that are reclassified to profit or loss when specific conditions are met:				
Adjustments arising from translating financial statements	2,981	(692)	(1,097)	(315)
<u>Total other comprehensive income (loss)</u>	<u>2,404</u>	<u>(1,566)</u>	<u>(1,152)</u>	<u>(331)</u>
<u>Total comprehensive income</u>	<u>39,958</u>	<u>31,104</u>	<u>24,726</u>	<u>7,124</u>
Attributable to:				
Equity holders of the Company	38,853	31,243	25,477	7,340
Non-controlling interests	1,105	(139)	(751)	(216)
	<u>39,958</u>	<u>31,104</u>	<u>24,726</u>	<u>7,124</u>

*) Reclassified.

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 share-based payment to subsidiaries	Reserve for transactions with non-controlling interests	Retained earnings	Currency translation adjustment	Total	Non-controlling interests	Total equity
	NIS									
	(In thousands)									
Balance at January 1, 2011	28,346	57,313	(2,087)	-	-	104,288	(3,230)	184,630	25,106	209,736
Net Income	-	-	-	-	-	36,495	-	36,495	1,059	37,554
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(577)	-	(577)	-	(577)
Adjustments from translation of financial statements	-	-	-	-	-	-	2,935	2,935	46	2,981
Total comprehensive income	-	-	-	-	-	35,918	2,935	38,853	1,105	39,958
Dividend paid	-	-	-	-	-	(12,000)	-	(12,000)	-	(12,000)
Dividend declared	-	-	-	-	-	(10,000)	-	(10,000)	-	(10,000)
Purchase of non-controlling interests	-	-	-	-	1,195	-	-	1,195	(1,195)	-
Balance at December 31, 2011	28,346	57,313	(2,087)	-	1,195	118,206	(295)	202,678	25,016	227,694
Net Income	-	-	-	-	-	32,815	-	32,815	(145)	32,670
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(874)	-	(874)	-	(874)
Adjustments from translation of financial statements	-	-	-	-	-	-	(698)	(698)	6	(692)
Total comprehensive income (loss)	-	-	-	-	-	31,941	(698)	31,243	(139)	31,104
Purchase of non-controlling interests	50	1,720	-	-	(6,858)	-	-	(5,088)	(25,257)	(30,345)
Balance at December 31, 2012	28,396	59,033	(2,087)	-	(5,663)	150,147	(993)	228,833	(380)	228,453
Net Income	-	-	-	-	-	26,629	-	26,629	(751)	25,878
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(55)	-	(55)	-	(55)
Adjustments from translation of financial statements	-	-	-	-	-	-	(1,097)	(1,097)	-	(1,097)
Total comprehensive income (loss)	-	-	-	-	-	26,574	(1,097)	25,477	(751)	24,726
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	950	950
Balance at December 31, 2013	28,396	59,033	(2,087)	-	(5,663)	176,721	(2,090)	254,310	(181)	254,129

*) Reclassified.

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 share-based payment to subsidiaries	Reserve for transactions with non-controlling interests	Retained earnings	Currency translation adjustment	Total	Non-controlling interests	Total equity
Balance at January 1, 2013	8,181	17,007	(601)	-	(1,632)	43,258	(286)	65,927	(109)	65,818
Net Income	-	-	-	-	-	7,671	-	7,671	(216)	7,455
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(16)	-	(16)	-	(16)
Adjustments from translation of financial statements	-	-	-	-	-	-	(315)	(315)	-	(315)
Total comprehensive income (loss)	-	-	-	-	-	7,655	(315)	7,340	(216)	7,124
Purchase of non-controlling interests	-	-	-	-	-	-	-	-	273	273
Balance at December 31, 2013	8,181	17,007	(601)	-	(1,632)	50,913	(601)	73,267	(52)	73,215

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)
	*2011	*2012	2013	Year ended December 31, 2013
	N I S			U.S. dollars
	(In thousands)			
<u>Cash flows from operating activities:</u>				
Net income	37,554	32,670	25,878	7,455
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Exchange differences on intercompany dividend	99	-	-	-
Gain from Securities	(832)	(911)	-	-
Depreciation and amortization	13,454	11,690	17,692	5,097
Loss (gain) from forward transactions	(242)	45	(285)	(82)
Increase in fair value of investment property	(3,002)	(4,930)	(125)	(36)
Loss (gain) from sale of property, plant and equipment and intangible assets	(103)	240	34	10
Gain from acquisition of activity	(10,487)	-	-	-
Gain from acquisition of company accounted for at equity	-	(6,448)	-	-
Company's share of losses (earnings) of companies accounted for at equity	1,828	6,976	(4,458)	(1,284)
Taxes on income	91	2,314	5,009	1,443
Change in employee benefit liabilities, net	272	(453)	196	56
Revaluation of long-term liabilities to banks and debentures, net	305	(457)	(445)	(128)
Interest expenses, net	16,004	17,218	16,366	4,715
	<u>13,387</u>	<u>25,284</u>	<u>33,984</u>	<u>9,791</u>
Changes in asset and liability items:				
Decrease (increase) in trade receivables	(19,839)	7,459	(66,560)	(19,176)
Increase in other accounts receivable including long-term receivables	(13,493)	(3,473)	3,878	1,117
Decrease (increase) in inventories	(18,876)	(3,946)	14,974	4,314
Increase (decrease) in trade payables	(3,854)	(6,671)	49,645	14,303
Increase (decrease) in other accounts payable	(1,915)	2,230	(4,364)	(1,257)
Increase (decrease) in customer advances	1,957	(1,096)	585	169
	<u>(56,020)</u>	<u>2,395</u>	<u>(1,841)</u>	<u>(530)</u>
Cash paid and received during the year for:				
Interest paid	(18,742)	(18,026)	(17,060)	(4,915)
Interest received	2,738	751	582	168
Taxes paid	(20,916)	(17,325)	(7,711)	(2,222)
Taxes received	248	7,443	4,407	1,270
Dividend received	2,493	-	1,086	313
	<u>(34,179)</u>	<u>(27,157)</u>	<u>(18,696)</u>	<u>(5,386)</u>
Net cash provided by (used in) operating activities	<u>(35,258)</u>	<u>33,192</u>	<u>39,325</u>	<u>11,330</u>

*1) Reclassified.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1)
	2011	2012	2013	Year ended December 31, 2013
	NIS			U.S. dollars
	(In thousands)			
<u>Cash flows from investing activities:</u>				
withdrawal of (Investment in) deposit	-	(30,000)	30,331	8,738
Payment for acquisition of activity	(2,000)	-	-	-
Payment for acquisition of property, plant, equipment and investment property	-	(2,975)	(508)	(146)
Sale (purchase) of securities at fair value through profit or loss	(38,765)	40,508	-	-
Purchase of property, plant and equipment	(10,328)	(5,587)	(2,883)	(831)
Purchase of investment property	(228)	-	-	-
Acquisition of newly consolidated subsidiaries (a)	81	-	(4,220)	(1,215)
Proceeds from sale of Investment in investee	-	850	-	-
Proceeds from sale of property, plant and equipment	341	59	53	15
Receipt of payment (payment) for closing forward transactions	31	166	285	82
Collection of long-term loans	279	-	-	-
Purchase of intangible assets	(2,847)	(5,350)	(1,401)	(404)
Capitalization of development expenses	(7,743)	(13,017)	(13,783)	(3,970)
Net cash provided by (used in) investing activities	<u>(61,179)</u>	<u>(15,346)</u>	<u>7,874</u>	<u>2,269</u>
<u>Cash flows from financing activities:</u>				
Dividend paid	(12,000)	(10,000)	-	-
Purchase of non-controlling interests	-	(30,200)	-	-
Issue of debentures (less issuance expenses)	-	30,663	98,800	28,464
Repayment of debentures	(16,419)	-	(25,944)	(7,475)
Repayment of long-term loans	(19,390)	(59,206)	(31,637)	(9,115)
Receipt of long-term loans	30,000	-	-	-
Short-term credit from others	-	2,801	(2,693)	(776)
credit to subsidiaries	(4,262)	(3,717)	3,923	1,130
Short-term credit from banks, net	<u>(16,489)</u>	<u>57,451</u>	<u>(28,672)</u>	<u>(8,260)</u>
Net cash provided by (used in) financing activities	<u>(38,560)</u>	<u>(12,208)</u>	<u>13,777</u>	<u>3,969</u>
Exchange differences on balances of cash and cash equivalents	<u>1,106</u>	<u>(120)</u>	<u>(437)</u>	<u>(126)</u>
Increase (decrease) in cash and cash equivalents	(133,891)	5,518	60,539	17,441
Cash and cash equivalents at beginning of year	<u>174,100</u>	<u>40,209</u>	<u>45,727</u>	<u>13,174</u>
Cash and cash equivalents at end of year	<u>40,209</u>	<u>45,727</u>	<u>106,266</u>	<u>30,615</u>

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

^{*)} Reclassified.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1)
	<u>'2011</u>	<u>'2012</u>	<u>2013</u>	<u>Year ended December 31, 2013</u>
	NIS			U.S. dollars
	(In thousands)			
(a) <u>Acquisition of initially consolidated subsidiaries</u>				
Working capital (except cash and cash equivalents)	13,692	-	(1,626)	(468)
Advance for acquisition of activity	699	-	-	-
Property, plant and equipment	669	-	417	120
Intangible assets, net	2,892	-	6,796	1,958
Long-term receivables	100	-	-	-
Deferred taxes	(659)	-	(193)	(56)
Liability for acquisition of activity	(4,991)	-	(224)	(65)
Non-current liabilities	(1,905)	-	-	-
Employee benefit liabilities	(845)	-	-	-
Profit created upon acquisition	(9,733)	-	-	-
Non-controlling interests	-	-	(950)	(274)
	<u>(81)</u>	<u>-</u>	<u>4,220</u>	<u>1,215</u>
(b) <u>Significant non-cash transactions:</u>				
Purchase of non-controlling interests	<u>-</u>	<u>5,088</u>	<u>-</u>	<u>-</u>
Purchase of property, plant and equipment on credit	<u>3,065</u>	<u>632</u>	<u>78</u>	<u>22</u>
Purchase of intangible assets on credit	<u>90</u>	<u>390</u>	<u>220</u>	<u>63</u>
Purchase of intangible assets against accounts payable	<u>-</u>	<u>1,130</u>	<u>-</u>	<u>-</u>
Dividend declared and not yet paid	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

^{*)} Reclassified.

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

The financial statements as of December 31, 2013 and for the year then ended have been translated into dollars using the exchange rate as of that date (\$ 1 = NIS 3.471). 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 Contracting & Services Ltd.	100%	100%
Afcon Technologies Ltd	100%	100%
Eres Refrigeration & Engineering Manufacture & Service Ltd	100%	100%
Afcon Power & Automation s.r.o .(Czech)	100%	100%
Electra Afcon EE Rus(Russia)	50%	50%
Afcon Real-Estate Center Ltd	100%	100%
Afcon Control & Automation Ltd.	100%	100%
ARG - Afcon RMG Gas Technologies JV	50%	50%
T.I.B.A. Research and Development (1986) Ltd	50%	50%
T.I.B.A LLC (USA)	50%	50%
Wanger B.V(Holland).	100%	100%
Afcon Technologis Rus	100%	100%
Ateka Ltd	100%	100%
Tadiran Telecom Technologies (2011) Ltd.	100%	100%
Tadiran Telecom (TTL) Limited Partner	100%	100%
Tadiran Telecom Inc. USA	100%	100%
Kunming Tadiran Telecommunication Equipment Co. Ltd - Joint Venture	42.7%	51%
Tadiran Telcom Communications Services in Israel Ltd.	100%	100%
Afcon E.B. Wind Energy Ltd.	51%	51%
Sirin & Gilboa Wind Farms	51%	51%
Wind Farm Management Sirin Ltd	51%	51%
Wind Farm Sirin 2011 Limited Partner	51%	51%
A.T. Afek Investments Ltd	100%	100%
Afcon Solaer Mangement (2012) Ltd.	50%	50%
Afcon Solaer Renewable Energy Limited Partnership	50%	50%
Afcon Construction LTD	100%	100%
G.M Afcon Security Technologies Limited Partnership	70%	70%
Afcon M&E Gmbh (Germany)	100%	100%
A.A. Atidim Project	50%	50%
Afcon Electra Romania SA(Romania)	50%	50%
Afcon Elctro-Mechanics Works EOOD-(Bulgaria)	50%	50%
Afcon-El-Mor Joint Venture	50%	50%
NGgear Ltd.	51%	51%