

AFCON HOLDINGS LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2015

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



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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, 2015 and 2014 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years ended December 31, 2015, in accordance with generally accepted auditing standards in Israel.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 0.5% and 2% of total consolidated assets as of December 31, 2015 and 2014, respectively, and whose revenues constitute approximately 2%, 3% and 3% of total consolidated revenues for the years ended December 31, 2015, 2014 and 2013, respectively. Furthermore, we did not audit the financial statements of certain associate that is presented at equity the investment in which amounted to 13,962 thousand NIS and 9,793 thousand NIS as of December 31, 2015 and 2014, respectively, and the Company's share of its earnings (losses) amounted to 5,537 thousand NIS 1,354 thousand NIS and 1,316 thousand NIS for 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.

Based on our audits in our report dated March 17, 2016, 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 17, 2016

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

CONSOLIDATED BALANCE SHEETS

	<u>December 31,</u>		<u>Convenience translation (Note 1)</u>
	<u>2014</u>	<u>2015</u>	<u>December 31, 2015</u>
	<u>N I S</u>		<u>U.S. dollars</u>
	<u>(In thousands)</u>		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	58,743	128,096	32,828
Trade receivables	528,512	604,875	155,017
Other accounts receivable	28,449	17,905	4,589
Inventories	71,740	81,108	20,786
	<u>687,444</u>	<u>831,984</u>	<u>213,220</u>
NON-CURRENT ASSETS:			
Receivables	11,820	10,267	2,631
Investments in companies accounted for at equity	51,027	64,033	16,410
Investment property, net	52,570	52,415	13,433
Property, plant and equipment	86,592	82,667	21,186
Intangible assets	74,372	57,632	14,770
Deferred taxes	24,363	20,486	5,250
	<u>300,744</u>	<u>287,500</u>	<u>73,680</u>
	<u>988,188</u>	<u>1,119,484</u>	<u>286,900</u>

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

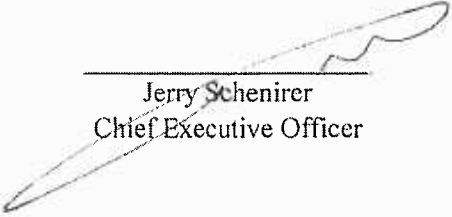
CONSOLIDATED BALANCE SHEETS


	<u>December 31,</u>		Convenience translation (Note 1)
	<u>2014</u>	<u>2015</u>	<u>December 31, 2015</u>
	N I S		U.S. dollars
	(In thousands)		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	26,192	47,030	12,053
Current maturities of debentures	55,943	55,851	14,313
Trade payables	272,370	349,865	89,663
Other accounts payable	98,628	97,749	25,051
Customer advances	43,124	22,090	5,661
	<u>496,257</u>	<u>572,585</u>	<u>146,741</u>
NON-CURRENT LIABILITIES:			
Loans from banks	7,309	69,445	17,797
Debentures	185,658	129,808	33,267
Employee benefit liabilities	4,908	5,438	1,394
Other Liabilities	8,115	6,597	1,691
Deferred taxes	1,688	2,482	636
	<u>207,678</u>	<u>213,770</u>	<u>54,785</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	28,396	28,396	7,277
Share premium	59,033	59,033	15,129
Treasury shares	(2,087)	(2,087)	(535)
Reserve for transactions with non-controlling interests	(6,421)	(6,421)	(1,646)
Retained earnings	210,171	261,145	66,926
Capital reserve of hedge transactions	(3,117)	(3,572)	(915)
Currency translation adjustment	(1,606)	(2,577)	(660)
	<u>284,369</u>	<u>333,917</u>	<u>85,576</u>
Non-controlling interests	(116)	(788)	(202)
Total equity	<u>284,253</u>	<u>333,129</u>	<u>85,374</u>
	<u>988,188</u>	<u>1,119,484</u>	<u>286,900</u>

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

March 17, 2016

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)
	2013	2014	2015	Year ended December 31, 2015
	NIS			U.S. dollars
(In thousands, except per share data)				
Revenues from works performed, sales and services	1,056,844	1,189,348	1,332,805	341,569
Cost of works, sales and services	887,584 *)	985,491 *)	1,126,602	288,724
Gross profit	169,260	203,857	206,203	52,845
Increase (decrease) in value of investment property	125	323	(155)	(40)
Selling and marketing expenses	(53,191) *)	(55,710) *)	(54,694)	(14,017)
General and administrative expenses	(66,211) *)	(75,082) *)	(75,001)	(19,221)
Research and development expenses	(5,838)	(3,374)	(3,989)	(1,022)
Share in earnings of associated companies, net	4,458	1,372	7,492	1,920
Other income (expenses)	2,178	(8,770)	12,320	3,157
Financial expenses	(21,274)	(18,518)	(19,875)	(5,094)
Financial income	1,380	10,899	5,828	1,495
Income before taxes on income	30,887	54,997	78,129	20,023
Taxes on income	5,009	11,845	15,575	3,992
Net income	25,878	43,152	62,554	16,031
Attributable to:				
Equity holders of the Company	26,629	43,633	63,226	16,203
Non-controlling interests	(751)	(481)	(672)	(172)
	25,878	43,152	62,554	16,031
Net earnings per share attributable to equity holders of the Company (in NIS):				
Basic and diluted net earnings	5.704	9.335	13.8	3.537

*) 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)
	2013	2014	2015	Year ended December 31, 2015
	NIS			U.S. dollars
	(In thousands)			
Net income	25,878	43,152	62,554	16,031
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	(55)	(183)	(252)	(65)
Amounts that will be reclassified or that are reclassified to profit or loss when specific conditions are met:				
Adjustments arising from translating financial statements	(1,097)	484	(971)	(249)
Loss from cash flow hedges	-	(4,196)	(641)	(164)
Amounts transferred to the statement of profit or loss for cash flow hedges	-	757	1,658	425
Group's share of net other comprehensive income (loss) of companies accounted for at equity	-	322	(1,472)	(377)
Total other comprehensive loss	<u>(1,152)</u>	<u>(2,816)</u>	<u>(1,678)</u>	<u>(430)</u>
Total comprehensive income	<u>24,726</u>	<u>40,336</u>	<u>60,876</u>	<u>15,601</u>
Attributable to:				
Equity holders of the Company	25,477	40,817	61,548	15,773
Non-controlling interests	<u>(751)</u>	<u>(481)</u>	<u>(672)</u>	<u>(172)</u>
	<u>24,726</u>	<u>40,336</u>	<u>60,876</u>	<u>15,601</u>

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							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Reserve for cash flow hedges	Reserve for transactions with non-controlling interests	Retained earnings	Currency translation adjustment			
	NIS									
	(In thousands)									
Balance at January 1, 2013	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
Net Income	-	-	-	-	-	43,633	-	43,633	(481)	43,152
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(183)	-	(183)	-	(183)
Loss from cash flow hedges	-	-	-	(3,117)	-	-	-	(3,117)	-	(3,117)
Adjustments from translation of financial statements	-	-	-	-	-	-	484	484	-	484
Total comprehensive income (loss)	-	-	-	(3,117)	-	43,450	484	40,817	(481)	40,336
Dividend paid	-	-	-	-	-	(10,000)	-	(10,000)	-	(10,000)
Purchase of non-controlling interests	-	-	-	-	(758)	-	-	(758)	546	(212)
Balance at December 31, 2014	28,396	59,033	(2,087)	(3,117)	(6,421)	210,171	(1,606)	284,369	(116)	284,253
Net 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

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)

	Reserve for transactions with non-controlling interests							Total	Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Reserve for cash flow hedges	Retained earnings	Currency translation adjustment	Total			
Balance at January 1, 2015	7,277	15,129	(535)	(799)	(1,646)	53,862	(412)	72,876	(30)	72,846
Net Income	-	-	-	-	-	16,203	-	16,203	(172)	16,031
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	(65)	-	(65)	-	(65)
Loss from cash flow hedges	-	-	-	(117)	-	-	-	(117)	-	(117)
Adjustments from translation of financial statements	-	-	-	-	-	-	(248)	(248)	-	(248)
Total comprehensive income (loss)	-	-	-	(117)	-	16,138	(248)	15,773	(172)	15,601
Dividend paid	-	-	-	-	-	(3,075)	-	(3,075)	-	(3,075)
Balance at December 31, 2015	7,277	15,129	(535)	(916)	(1,646)	66,925	(660)	85,574	(202)	85,372

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)
	2013	2014	2015	Year ended December 31, 2015
	N I S			U.S. dollars
	(In thousands)			
<u>Cash flows from operating activities:</u>				
Net income	25,878	43,152	62,554	16,031
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization	17,692	17,834	21,394	5,483
Gain from forward transactions	(285)	-	-	-
Gain from sale of affiliated company	-	-	(32,809)	(8,408)
Loss from impairment of intangible assets	-	-	15,608	4,000
Loss from impairment of goodwill	-	-	3,000	769
Decrease (increase) in fair value of investment property	(125)	(323)	155	40
Loss (gain) from sale of property, plant and equipment and intangible assets	34	57	(515)	(132)
Share in earnings of associated companies, net	(4,458)	(1,372)	(7,492)	(1,920)
Taxes on income	5,009	11,845	15,575	3,992
Change in employee benefit liabilities, net	196	(605)	278	71
Revaluation of loans held by subsidiaries	-	(9,591)	(3,557)	(912)
Revaluation of long-term liabilities to banks and debentures, net	(445)	(1,821)	(590)	(151)
Interest expenses, net	16,366	19,031	17,421	4,465
	<u>33,984</u>	<u>35,055</u>	<u>28,468</u>	<u>7,297</u>
Changes in asset and liability items:				
Increase in trade receivables	(66,560)	(98,846)	(77,475)	(19,855)
Decrease in other accounts receivable including long-term receivables	3,878	4,014	11,949	3,062
Decrease (increase) in inventories	14,975	16,582	(9,342)	(2,394)
Increase in trade payables	49,645	40,619	77,127	19,766
Increase (decrease) in other accounts payable	(4,364)	5,616	(7,221)	(1,851)
Increase (decrease) in customer advances	585	21,153	(21,024)	(5,388)
	<u>(1,841)</u>	<u>(10,862)</u>	<u>(25,986)</u>	<u>(6,660)</u>
Cash paid and received during the year for:				
Interest paid	(17,060)	(19,197)	(17,928)	(4,595)
Interest received	582	166	507	130
Taxes paid	(7,711)	(4,856)	(4,983)	(1,277)
Taxes received	4,407	6,058	60	15
Dividend received	1,086	3,639	10,058	2,578
	<u>(18,696)</u>	<u>(14,190)</u>	<u>(12,286)</u>	<u>(3,149)</u>
Net cash provided by operating activities	<u>39,325</u>	<u>53,155</u>	<u>52,750</u>	<u>13,519</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1)
	2013	2014	2015	Year ended December 31, 2015
	NIS			U.S. dollars
	(In thousands)			
<u>Cash flows from investing activities:</u>				
withdrawal of deposit	30,331	-	-	-
Purchase of property, plant and equipment	(3,391)	(3,644)	(3,456)	(886)
Purchase of investment property	-	(1,122)	-	-
Acquisition of newly consolidated subsidiaries (a)	(4,220)	-	-	-
Proceeds from sale of Investment in investee	-	-	18,161	4,654
Proceeds from sale of property, plant and equipment	53	53	515	132
Receipt of payment for closing forward transactions	285	-	-	-
Collection of long-term loans	-	(40,065)	-	-
Purchase of intangible assets	(1,401)	(4,318)	(4,416)	(1,132)
Capitalization of development expenses	(13,783)	(13,533)	(10,211)	(2,617)
Net cash provided by (used in) investing activities	<u>7,874</u>	<u>(62,629)</u>	<u>593</u>	<u>151</u>
<u>Cash flows from financing activities:</u>				
Dividend paid	-	(10,000)	(12,000)	(3,075)
Purchase of non-controlling interests	-	(212)	-	-
Issuance of debentures (less issuance expenses)	98,800	67,001	-	-
Repayment of debentures	(25,944)	(25,944)	(55,346)	(14,184)
Long-term loans from banks	-	1,599	85,000	21,784
Repayment of long-term loans	(31,637)	(15,711)	(7,190)	(1,843)
credit to subsidiaries	3,923	3,545	-	-
Short-term credit from banks, net	(31,365)	(58,445)	5,131	1,315
Net cash provided by (used in) financing activities	<u>13,777</u>	<u>(38,167)</u>	<u>15,595</u>	<u>3,997</u>
Exchange differences on balances of cash and cash equivalents	<u>(437)</u>	<u>118</u>	<u>415</u>	<u>106</u>
Increase (decrease) in cash and cash equivalents	60,539	(47,523)	69,353	17,773
Cash and cash equivalents at beginning of year	<u>45,727</u>	<u>106,266</u>	<u>58,743</u>	<u>15,055</u>
Cash and cash equivalents at end of year	<u>106,266</u>	<u>58,743</u>	<u>128,096</u>	<u>32,828</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)
	2013	2014	2015	Year ended December 31, 2015
	NIS			U.S. dollars
	(In thousands)			
(a) <u>Acquisition of initially consolidated subsidiaries</u>				
Working capital (except cash and cash equivalents)	(1,626)	-	-	-
Property, plant and equipment	417	-	-	-
Intangible assets, net	6,796	-	-	-
Deferred taxes	(193)	-	-	-
Liability for acquisition of activity	(224)	-	-	-
Non-controlling interests	(950)	-	-	-
	<u>4,220</u>	<u>-</u>	<u>-</u>	<u>-</u>
(b) <u>Significant non-cash transactions:</u>				
Purchase of property, plant and equipment on credit	<u>78</u>	<u>74</u>	<u>576</u>	<u>148</u>
Customer portfolio acquisition	<u>-</u>	<u>2,500</u>	<u>-</u>	<u>-</u>
Purchase of intangible assets on credit	<u>220</u>	<u>150</u>	<u>653</u>	<u>167</u>

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, 2015 and for the year then ended have been translated into dollars using the exchange rate as of that date (\$ 1 = NIS 3.902). 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	30%	30%
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%
NGnear Ltd.	51%	51%