

AFCON HOLDINGS LTD.

CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

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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, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years ended December 31, 2016, in accordance with generally accepted auditing standards in Israel.

We did not audit the financial statements of certain subsidiaries, whose assets constitute approximately 0.6% and 0.5% of total consolidated assets as of December 31, 2016 and 2015, respectively, and whose revenues constitute approximately 2%, 2% and 3% of total consolidated revenues for the years ended December 31, 2016, 2015 and 2014, respectively. Furthermore, we did not audit the financial statements of certain associate that is presented at equity the investment in which amounted to 33,717 thousand NIS and 15,134 thousand NIS as of December 31, 2016 and 2015, respectively, and the Company's share of its earnings amounted to 9,288 thousand NIS 6,317 thousand NIS and 1,354 thousand NIS for the years ended December 31, 2016, 2015 and 2014, respectively. The financial statements of those companies were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to amounts included for those companies, is based on the reports of the other auditors.

Based on our audits in our report dated March 30, 2017, 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 30, 2017

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

	December 31,		Convenience translation (Note 1)
	2015	2016	December 31, 2016
	N I S		U.S. dollars
	(In thousands)		
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	128,096	287,521	74,778
Restricted cash	-	438	114
Trade receivables	604,875	634,548	165,032
Other accounts receivable	17,905	36,525	9,499
Current maturities of Financial asset to concessions projects	-	6,952	1,808
Inventories	81,108	78,945	20,532
	<u>831,984</u>	<u>1,044,929</u>	<u>271,763</u>
NON-CURRENT ASSETS:			
Deposits a bank	-	6,427	1,672
Receivables	10,267	8,997	2,340
Investments in companies accounted for at equity	64,033	37,313	9,704
Financial assets to concessions projects	-	181,948	47,321
Investment property	52,415	7,821	2,034
Property, plant and equipment, net	82,667	87,359	22,720
Intangible assets	57,632	69,661	18,117
Deferred taxes	20,486	12,559	3,266
	<u>287,500</u>	<u>412,085</u>	<u>107,174</u>
	<u><u>1,119,484</u></u>	<u><u>1,457,014</u></u>	<u><u>378,937</u></u>

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

CONSOLIDATED BALANCE SHEETS

	December 31,		Convenience translation (Note 1)
	2015	2016	December 31, 2016
	N I S		U.S. dollars
	(In thousands)		
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Credit from banks and others	47,030	43,444	11,299
Current maturities loans from bank to concessions projects	-	6,322	1,644
Current maturities of debentures	55,851	55,771	14,505
Trade payables	349,865	399,144	103,809
Other accounts payable	97,749	113,228	29,448
Customer advances	22,090	117,346	30,519
	<u>572,585</u>	<u>735,255</u>	<u>191,224</u>
NON-CURRENT LIABILITIES:			
Loans from banks and others	69,445	128,754	33,486
Loan from bank to concessions projects	-	152,236	39,593
Debentures	129,808	74,036	19,255
Employee benefit liabilities	5,438	3,972	1,033
Other Liabilities	6,597	3,553	924
Deferred taxes	2,482	5,827	1,516
	<u>213,770</u>	<u>368,378</u>	<u>95,807</u>
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY:			
Share capital	28,396	28,396	7,385
Share premium	59,033	59,033	15,353
Treasury shares	(2,087)	(2,087)	(543)
Reserve for transactions with non-controlling interests	(6,421)	(6,421)	(1,670)
Retained earnings	261,145	280,184	72,870
Capital reserve of hedge transactions	(3,572)	(731)	(190)
Currency translation adjustment	(2,577)	(3,525)	(917)
	<u>333,917</u>	<u>354,849</u>	<u>92,288</u>
Non-controlling interests	(788)	(1,468)	(382)
	<u>333,129</u>	<u>353,381</u>	<u>91,906</u>
Total equity	<u><u>1,119,484</u></u>	<u><u>1,457,014</u></u>	<u><u>378,937</u></u>

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

March 30, 2017

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)
	2014	2015	2016	Year ended December 31, 2016
	NIS			U.S. dollars
	(In thousands, except per share data)			
Revenues from works performed, sales and services	1,189,348	1,332,805	1,435,462	373,332
Cost of works, sales and services	983,761 *)	1,124,882*)	1,222,712	318,000
Gross profit	205,587	207,923	212,750	55,332
Increase (decrease) in value of investment property	323	(155)	-	-
Selling and marketing expenses	(55,710)	(53,663) *)	(50,499)	(13,134)
General and administrative expenses	(76,812) *)	(77,752) *)	(80,715)	(20,992)
Research and development expenses	(3,374)	(3,989)	(4,531)	(1,178)
Company's share of earnings of companies accounted for at equity	1,372	7,492	12,649	3,288
Other income (expenses)	(8,770)	12,320	(15,978)	(4,156)
Financial expenses	(18,518)	(19,875)	(21,064)	(5,478)
Financial income	10,899	5,828	2,892	753
Income before taxes on income	54,997	78,129	55,504	14,435
Taxes on income	11,845	15,575	12,323	3,205
Net income	43,152	62,554	43,181	11,230
Attributable to:				
Equity holders of the Company	43,633	63,226	43,861	11,407
Non-controlling interests	(481)	(672)	(680)	(177)
	43,152	62,554	43,181	11,230
Net earnings per share attributable to equity holders of the Company (in NIS):				
Basic and diluted net earnings	9.34	13.8	9.58	2.49

*) 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)
	2014	2015	2016	Year ended December 31, 2016
	NIS			U.S. dollars
	(In thousands)			
Net income	43,152	62,554	43,181	11,230
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	(183)	(252)	178	46
Amounts that will be reclassified or that are reclassified to profit or loss when specific conditions are met:				
Adjustments arising from translating financial statements	484	(971)	(948)	(247)
Gain (loss) from cash flow hedges	(4,196)	(641)	57	15
Amounts transferred to the statement of profit or loss for cash flow hedges	757	1,658	1,634	425
Group's share of net other comprehensive income (loss) of companies accounted for at equity	322	(1,472)	1,150	299
Total other comprehensive loss	(2,816)	(1,678)	2,071	538
Total comprehensive income	40,336	60,876	45,252	11,768
Attributable to:				
Equity holders of the Company	40,817	61,548	45,932	11,945
Non-controlling interests	(481)	(672)	(680)	(177)
	40,336	60,876	45,252	11,768

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, 2014	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
Net Income	-	-	-	-	-	43,861	-	43,861	(680)	43,181
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	178	-	178	-	178
Loss 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

*) 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 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, 2016	7,385	15,353	(543)	(929)	(1,670)	67,918	(670)	86,844	(205)	86,639
Net Income	-	-	-	-	-	11,407	-	11,407	(177)	11,230
Remeasurement in respect of defined benefit plans, net	-	-	-	-	-	46	-	46	-	46
Loss from cash flow hedges	-	-	-	739	-	-	-	739	-	739
Adjustments from translation of financial statements	-	-	-	-	-	-	(247)	(247)	-	(247)
Total comprehensive income (loss)	-	-	-	739	-	11,453	(247)	11,945	(177)	11,768
Dividend paid	-	-	-	-	-	(6,501)	-	(6,501)	-	(6,501)
Balance at December 31, 2016	7,385	15,353	(543)	(190)	(1,670)	72,870	(917)	92,288	(382)	91,906

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)
	2014	2015	2016	Year ended December 31, 2016
	NIS			U.S. dollars
	(In thousands)			
<u>Cash flows from operating activities:</u>				
Net income	43,152	62,554	43,181	11,230
Adjustments to reconcile net income to net cash provided by operating activities:				
Adjustments to the profit or loss items:				
Depreciation and amortization	17,834	21,394	24,528	6,379
Gain from business combination achieved in stages	-	-	(17,308)	(4,501)
Gain from sale of affiliated company	-	(32,809)	-	-
Loss from impairment of intangible assets	-	15,608	10,505	2,732
Loss from impairment of goodwill	-	3,000	11,743	3,054
Decrease (increase) in fair value of investment property	(323)	155	-	-
Loss (gain) from sale of property, plant and equipment and intangible assets	57	(515)	441	115
Company's share earnings of companies accounted for at equity	(1,372)	(7,492)	(12,649)	(3,290)
Taxes on income	11,845	15,575	12,323	3,205
Change in employee benefit liabilities, net	(605)	278	(1,204)	(313)
Revaluation of loans held by subsidiaries	(9,591)	(3,557)	(704)	(183)
Financing expenses from financial assets to concessions projects	-	-	555	144
Amortization of financial assets to concessions projects	-	-	22	6
Revaluation of long-term liabilities to banks and debentures, net	(1,821)	(590)	(506)	(132)
Interest expenses, net	19,031	17,421	15,213	3,957
	35,055	28,468	42,959	11,173
Changes in asset and liability items:				
Increase in trade receivables	(98,846)	(77,475)	(18,548)	(4,824)
Decrease (increase) in other accounts receivable including long-term receivables	4,014	11,949	(17,481)	(4,546)
Decrease (increase) in inventories	16,582	(9,342)	2,008	522
Increase in trade payables	40,619	77,127	51,038	13,274
Increase (decrease) in other accounts payable	5,615	(7,221)	17,219	4,478
Increase (decrease) in customer advances	21,153	(21,024)	95,211	24,762
	(10,863)	(25,986)	129,447	33,666
Cash paid and received during the year for:				
Interest paid	(19,197)	(17,928)	(15,428)	(4,012)
Interest received	166	507	215	56
Taxes paid	(4,856)	(4,983)	(22,683)	(5,899)
Taxes received	6,058	60	-	-
Dividend received	3,639	10,058	1,786	464
	(14,190)	(12,286)	(36,110)	(9,391)
Net cash provided by operating activities	53,154	52,750	179,477	46,678

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended December 31,			Convenience translation (Note 1)
	2014	2015	2016	Year ended December 31, 2016
	NIS			U.S. dollars
	(In thousands)			
<u>Cash flows from investing activities:</u>				
Payment for purchase of property, plant, equipment and intangible assets	-	-	(1,229)	(320)
Depositing	-	-	(6,427)	(1,672)
Purchase of property, plant and equipment	(3,644)	(3,456)	(12,658)	(3,292)
Proceeds from sale of investment property	-	-	75,800	19,714
Purchase of investment property	(1,122)	-	(31,067)	(8,080)
Acquisition of newly consolidated subsidiaries (a)	-	-	(12,714)	(3,307)
Proceeds(Investment) from sale of Investment in investee	-	18,161	(500)	(130)
Proceeds from sale of property, plant and equipment	53	515	109	28
Loan to subsidiaries	(40,065)	-	-	-
Purchase of intangible assets	(4,318)	(4,416)	(2,594)	(675)
Capitalization of development expenses	(13,533)	(10,211)	(10,473)	(2,724)
Activities of concessions projects-Construction costs	-	-	(3,862)	(1,004)
Activities of concessions projects-Repayment of financial assets	-	-	1,744	455
Net cash provided by (used in) investing activities	(62,629)	593	(3,871)	(1,007)
<u>Cash flows from financing activities:</u>				
Repayment of liability to liquidator	-	-	(941)	(245)
Dividend paid	(10,000)	(12,000)	(25,000)	(6,502)
Purchase of non-controlling interests	(212)	-	-	-
Issuance of debentures (less issuance expenses)	67,001	-	-	-
Repayment of debentures	(25,944)	(55,346)	(55,346)	(14,394)
Long-term loans from banks	1,599	85,000	100,000	26,008
Long-term loans from banks for Concessions projects	-	-	10,306	2,680
Repayment of long-term loans	(15,711)	(7,190)	(26,221)	(6,820)
Credit to subsidiaries	3,545	-	-	-
Short-term credit from banks, net	(58,445)	5,131	(18,826)	(4,896)
Net cash provided by (used in) financing activities	(38,167)	15,595	(16,028)	(4,169)
Exchange differences on balances of cash and cash equivalents	118	415	(153)	(39)
Increase (decrease) in cash and cash equivalents	(47,523)	69,353	159,425	41,463
Cash and cash equivalents at beginning of year	106,266	58,743	128,096	33,315
Cash and cash equivalents at end of year	58,743	128,096	287,521	74,778

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)
	2014	2015	2016	Year ended December 31, 2016
	NIS			U.S. dollars
	(In thousands)			
(a) <u>Acquisition of initially consolidated subsidiaries</u>				
Working capital (except cash and cash equivalents)	-	-	(84,665)	(22,020)
Cash and cash equivalents	-	-	286	74
Financial assets to Concessions projects	-	-	187,337	48,722
Intangible assets	-	-	37,982	9,878
Deferred taxes	-	-	(9,839)	(2,559)
Long term loans from bank	-	-	(143,815)	(37,402)
	-	-	(12,714)	(3,307)
(b) <u>Significant non-cash transactions:</u>				
Purchase of property, plant and equipment on credit	74	576	191	50
Customer portfolio acquisition	2,500	-	-	-
Purchase of intangible assets on credit	150	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, 2016 and for the year then ended have been translated into dollars using the exchange rate as of that date (\$ 1 = NIS 3.845). 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%
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%
T.I.B.A LLC (U.S.A)	30%	30%
Signature Control Systems LLC (U.S.A)	30%	30%
Wanger B.V(Holland).	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 (China)	42.7%	51%
Tadiran Telcom Communications Services in Israel Ltd.	100%	100%
Afcon E.B. Wind Energy Ltd.	100%	100%
Sirin & Gilboa Wind Farms	100%	100%
Wind Farm Management Sirin Ltd	100%	100%
Wind Farm Sirin 2011 Limited Partner	100%	100%
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 Hydromx (Previous B.kom) LTD	100%	100%
Afcon-El-Mor Joint Venture	50%	50%
NGnear Ltd.	51%	51%
Hizok and binui Bialik 6 Raanna LTD	49%	49%

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