

# Quarterly Financial Statement

## As at March 31, 2019



## **Disclaimer**

This reports is a translation of OPC Energy Ltd's Hebrew-language financial reports and Board of directors' report and prepared solely for convenience purposes. Please note that the Hebrew version constitutes the binding version, and in the event of any discrepancy, the Hebrew version shall prevail.

**Exhibits**

- 99.1 [OPC Energy Ltd. – Periodic Report for the three months ended March 31, 2019—Chapter B: Report of the Board of Directors regarding the Company's Matters for the Three-Month Period Ended March 31, 2019, as published on May 29, 2019 with the Israeli Securities Authority and Tel Aviv Stock Exchange\\*](#)
- 99.2 [OPC Energy Ltd. – Periodic Report for the three months ended March 31, 2019—Chapter C: Condensed Consolidated Interim Financial Statements at March 31, 2019, as published on May 29, 2019 with the Israeli Securities Authority and Tel Aviv Stock Exchange\\*](#)

\*English convenience translation from Hebrew original document.

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**OPC ENERGY LTD.**

**Report of the Board of Directors regarding the Company's Matters  
for the Three-Month Period Ended March 31, 2019**

The Board of Directors of OPC Energy Ltd. (hereinafter – “the Company”) is pleased to present herein the Report of the Board of Directors regarding the activities of the Company and its investee companies, the financial statements of which are consolidated with the Company's financial statements (hereinafter – “the Group”), as at March 31, 2019 and for the three-month period then ended, in accordance with the Securities Regulations (Periodic and Immediate Reports), 1970 (hereinafter – “the Reporting Regulations”).

The review provided below is limited in scope and relates to events and changes in the state of the Company's affairs during the period of the report that have a material effect on the data included in the interim financial statements and on the data in the Description of the Company's Business, and is presented based on the assumption that the reader has access to, among other things, the Directors' Report and the financial statements for the year ended December 31, 2018, which were attached to the Company's Periodic Report for 2018 which was published on March 28, 2019 (Reference No.: 2019-01-026541), (hereinafter – “the Consolidated Financial Statements” and “the Periodic Report for 2018”, respectively). The information included in the Periodic Report and the Consolidated Financial Statements is included herein by reference.

It is noted that, as at March 31, 2019, there are no warning signs, as defined in Regulation 10(B)(14) of the Reporting Regulations, that require the Company to publish a report of projected cash flows.

Presented together with this report are the consolidated interim financial statements as at March 31, 2019 (hereinafter – “the Interim Statements”). In certain cases, details are provided regarding events that took place after the date of the financial statements and shortly before the publication date of the report. The materiality of the information included in this report was examined from the point of view of the Company. Occasionally, an additional detailed description has been provided in order to give a comprehensive picture of the issue at hand. The interim financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and in accordance with the provisions of Part D of the Securities Regulations (Periodic and Immediate Reports), 1970.

**It is emphasized that the description in this report contains forward-looking information, as defined in the Securities Law, 1968 (hereinafter – “the Securities Law”). Forward-looking information is uncertain information relating to the future, including projections, assessments, estimates or other information relating to a future matter or event, the realization of which is uncertain and/or outside the Company's control. The forward-looking information included in this report is based on information or assessments existing in the Company as at the publication date of this report.**

**This Directors' Report has not been audited or reviewed by the Company's auditing CPAs.**

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**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs**

**1. General**

The Company is a public company the securities of which are listed for trade on the Tel Aviv Stock Exchange Ltd. (hereinafter – “the Stock Exchange”).

As at the date of the report, Kenon Holdings Inc. (hereinafter – “Kenon”) is the Company’s controlling shareholder for the purposes of the Securities Law and the Companies Law, 1999. Kenon is a company incorporated in Singapore, the shares of which are “dual listed” on both the New York Stock Exchange (NYSE) and on the Tel-Aviv Stock Exchange.

The Company is engaged, by itself and through several subsidiaries, in the generation and supply of electricity in Israel, including, initiation, development, construction and operation of power plants, and generation and supply of electricity to private customers and Israel Electric Company (hereinafter – “IEC”).

**Brief description of the Group, its business environment and its areas of activity**

As at the date of the report, the Company operates in a single reportable segment – generation and supply of electricity. In the framework of this area of activities, the Company is engaged in initiation, development, construction and operation of power plants and facilities for generation of electricity, and supply thereof to consumers. As at the date of the report the Company’s electricity generation and supply activities concentrate on generation of electricity using conventional and cogeneration technologies. As at the date of the report the Company owns two power plants: the Rotem Power Plant, which as at the date of the report is owned by OPC Rotem Ltd. (“Rotem”) (at the rate of 80%) and an additional shareholder (at the rate of 20%)<sup>1</sup>, which utilizes conventional generation technology and has an installed capacity of about 466 megawatts, as is shown in Rotem’s generation license; and the Hadera Power Plant, which is wholly owned by OPC Hadera Ltd. (“Hadera”), which is currently under construction and is planned to operate using cogeneration technology, with an installed capacity of about 148.5 megawatts, as is shown in Hadera’s conditional license.

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<sup>1</sup>For details regarding negotiations with the other shareholder (Veridis – Power Plants Ltd.) for execution of a transaction, among other things, for acquisition of its holdings in Rotem – see Section 2 of the Update of the Periodic Report for 2018 with reference to the Description of the Company’s Business.

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**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**1. General (Cont.)**

Hadera also owns the Energy Center, which has an installed capacity of about 17.9 megawatts and which up to the date of the commercial operation date of the Hadera Power Plant supplies all of the steam consumption and part of the electricity consumption of Hadera Paper Mills Ltd. (hereinafter – “Hadera Paper”) (the balance of the electricity needs of Hadera Paper is supplied by Rotem). As at March 31, 2019, the investments in the Hadera Power Plant and its infrastructures amounted to about NIS 837 million. Pursuant to the notification delivered by the construction contractor of the power plant being constructed by the Company’s subsidiary, OPC Hadera Ltd. (hereinafter – “the Hadera Power Plant”), the completion date of the construction of the Hadera Power Plant is expected to be delayed beyond the third quarter of 2019. This estimate is based on the timetables provided in connection with replacement of a defective component found as part of the operation tests<sup>2</sup>. In light of that stated the Company’s management estimates that the commercial operation date will be in the fourth quarter of 2019<sup>3</sup>. The Company is taking action to postpone the commercial operation date appearing in Hadera’s conditional license beyond September 2019 (the original date) based on the Cogeneration Regulations<sup>4</sup> and, accordingly, to revise the Hadera Loan Agreement (as this term is defined in the Periodic Report for 2018) to extend the commercial operation date provided in the Hadera Loan Agreement. As at the date of this Report, the Company estimates that the costs deriving from the said delay, including lost profits, are expected to be covered by Hadera’s insurance policy. In addition, Hadera is entitled to compensation from the construction contractor pursuant to the construction agreement in respect of delay of the operation date. Considering that stated, in the Company’s estimation the said delay is not expected to trigger a variance from the Company’s estimate with reference to the construction cost of the Hadera Power Plant<sup>5,6</sup>. For additional details – see Note 5C to the interim financial statements.

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<sup>2</sup> See Sections 3, 8.2.4, 8.5.1.2, 8.14, 8.18 and 19.3.10 in the Periodic Report for details regarding delays that occurred during the construction period of the Hadera Power Plant, including a prior component with the same defect. Based on the information provided by the construction contractor, the source of the defect was found and the required corrective actions are being taken.

<sup>3</sup> For details regarding the arrangements provided as part of Hadera’s arrangements with its customers in connection with delays in the operation date stated in the agreements with them, including provision of a discount by the Company in the delay period – see Section 8.5.1.2 of Part A to the Periodic Report for 2018.

<sup>4</sup> The Cogeneration Regulations in the Electricity Sector (Cogeneration), 2014. Postponement of the commercial operation date in the conditional license for a period of up to twelve months could involve forfeiture of the guarantee Hadera provided in the amount of NIS 1.2 million. For details – see that stated in Section 8.2.4 of Part A to the Periodic Report for 2018.

<sup>5</sup> See the above-mentioned sections in the Periodic Report.

<sup>6</sup> It is hereby clarified that that stated above, including regarding the updated expected date of commercial operation of the Hadera Power Plant, coverage of the costs deriving from the delay in the commercial operation of the Hadera Power Plant and/or regarding lack of a significant variance compared to the estimated construction cost of the power plant, includes “forward-looking” information, as defined in the Securities Law, 1968, which is based on the Company’s estimates as at the date of this report, and regarding which there is no certainty of its actual realization. As a practical matter, the date of commercial operation of the Hadera Power Plant could be delayed even beyond the fourth quarter of 2019 and the actual construction cost might be higher than the estimate – this being as a result of, among other things, delays in completion of the construction work and the operation of the power plant and/or due to additional breakdowns and technical failures and/or owing to occurrence of any of the risk factors involved with the construction of the power plant or in the Company’s activities. In addition, if compensation is not received for the full amount of the costs and/or damages (direct and/or indirect) in connection with the delay in completion of the construction and the commercial operation, this could have an adverse impact of the Company’s results and activities. For additional details regarding the risk factors involved with construction projects, including Hadera – see Section 19.3 to Part A of the Periodic Report for 2018..

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**Report of the Board of Directors**

**Part A – Explanations of the Board of Directors regarding the State of the Group’s Affairs (Cont.)**

**1. General (Cont.)**

In addition, in April 2017, the Company signed a set of agreements for acquisition of 95% of the issued and paid-up share capital of Zomet Energy Ltd. (“Zomet”), which is taking action to construct a power station running on natural gas using cogeneration technology in an open cycle having a capacity of about 396 megawatts located proximate to the Plugot intersection (“the Zomet Project”). In January 2019, the Company signed an agreement with the private shareholders of Zomet, for which 5% of the shares are held (“the Sellers”)<sup>7</sup>, whereby the Sellers will sell their shares in Zomet to the Company, in increments, on a number of dates and subject to fulfillment of milestones provided in the sale agreement. In April 2019, the conditional license for construction of the power plant for a period of 66 months was delivered to Zomet, this being further to the notification of the Electricity Authority and receipt of the approval of the Minister of Energy and after Zomet deposited a guarantee as required. The conditional license entered into effect on April 11, 2019 (the date it was signed by the Minister), and it is conditional on compliance with milestones as provided in the license, including reaching commercial operation within 66 months, as well as additional conditions that are customary in licenses of this type. It is emphasized that as at the publication date of this report, the Zomet project is subject to fulfillment of various preconditions and actions that up to now have not yet been fulfilled, including among others, assurance of the ability to output electricity from the project site, as well as maintaining (reserving) a place in the network at the time required for execution of the project. Furthermore, completion of the Zomet project is subject to completion of a financial closing at the time required, among other things, under Arrangement 914, as stated in Section 8.17.1 to Part A (Description of the Company’s Business) to the Periodic Report for 2018, which as at the date of this report is January 1, 2020.

Regarding approval of an addition to the amount of the required investment in order to bring Zomet to a position that will permit a financial closing – see Note 5 to the update of the Periodic Report regarding Description of the Company’s Business as at March 31, 2019.

In January 2019, an outline was determined for expansion of the activities of the Group to which the Company belongs (“the Idan Ofer Group” as defined in the outline) in the area of generation of electricity from an economy-wide business concentration perspective (“the Business Concentration Outline”). The Business Concentration Outline is intended to allow the Business Concentration Committee to revise its opinion regarding provision of a conditional license for generation of electricity to Zomet, and to notify the Electricity Authority that it does not see a preclusion for reasons of economy-wide business concentration to granting the requested license to Zomet, however this being only after compliance with the conditions provided in the Business Concentration Outline, and to permit the Business Concentration Committee to notify the Electricity Authority that it does not see a preclusion for reasons of economy-wide business concentration to allowing the Idan Ofer Group to receive additional licenses in the area of electricity generation up to the scope provided in the sector arrangement.

In April 2019, sale of the shares of “the Idan Ofer Group” (as defined in the Business Concentration Outline) in Reshet Media Ltd. was completed, which was provided as a condition in the Business Concentration Outline, this being after approval of the Business Concentration Committee to the transferee and receipt of the approval of the Second Authority for Television and Radio and, as stated above, a conditional license was issued to Zomet for construction of the power plant.

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<sup>7</sup>The shares of the Sellers in Zomet are held for them by a trustee.

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Part A – Explanations of the Board of Directors regarding the State of the Group’s Affairs (Cont.)**

**1. General (Cont.)**

The Company is continuing to take action in order to fulfill the conditions and to execute additional activities, for purposes of advancing the Zomet project toward a financial closing, however there is no certainty the Zomet project will be completed, and that stated is contingent on, among other things, factors not under the Company’s control. For additional details – see Section 2.3.1 to Part A (Description of the Company’s Business) in the Periodic Report for 2018, and Note 24A.6 to the Consolidated Financial Statements.

In addition, as part of a Government resolution dated April 2, 2017, the Company was authorized to advance through the National Infrastructures Committee, plans for construction of a power plant running on natural gas. For additional details – see Section 8.2.6 to Part A (Description of the Company’s Business) in the Periodic Report for 2018. For details regarding the reform in the electricity sector and the outline for selling the generation sites of Israel Electric Company (IEC) – see Sections 7.8.3 and 7.8.4 to Part A (Description of the Company’s Business) in the Periodic Report for 2018.

In 2018, the Group operated in the area of initiation of projects for generation of electricity using photovoltaic technology through OPC Solar. In March 2019, a binding memorandum of understanding was signed for sale of the holdings of OPC Solar in Greenday. In May 2019 the transaction was completed in accordance with the memorandum of understanding – this being, among other things, after receipt of approval of Supervisor of Economic Competition. On the completion date of the transaction, OPC Solar received part of the consideration, in the amount of NIS 1.5 million, and it was determined that it is to receive additional consideration, in the amount of NIS 1.25 million, no later than June 20, 2019. As stated in the Periodic Report for 2018, subject to fulfillment of conditions provided in the memorandum of understanding, OPC Solar may be entitled to additional consideration in respect of success, as defined in the memorandum of understanding. For details regarding the gain expected from the transaction – see Note 5 to the interim financial statements<sup>8</sup>. Upon completion of the transaction, the Company’s activities in the area of electricity generation activities using photovoltaic technology were sold. For additional details – see Note 3 to the Update of the Periodic Report regarding Description of the Company’s Business as at March 31, 2019.

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<sup>8</sup> It is emphasized that the total maximum consideration expected for the Company from the transaction described and the expected profit from the transaction constitute “forward-looking” information, as defined in the Securities Law, regarding which there is no certainty it will actually be realized, and that stated depends on, among other things, factors not under the Company’s control.



**OPC Energy Ltd.**  
**Report of the Board of Directors**

**2. Financial Position as at March 31, 2019 (in thousands of NIS)**

Category	3/31/2019	12/31/2018	Analysis
<b>Current Assets</b>			
Cash and cash equivalents	448,687	329,950	<p>Most of the increase stems from an increase in the cash balances as a result of the Company's current operating activities, in the amount of about NIS 187 million.</p> <p>This increase was partly offset by current debt payments in Rotem, in the amount of about NIS 27 million, additional investments in construction of the Hadera power plant, in the amount of about NIS 15 million, a deposit in a debt service fund of Rotem, in the amount of about NIS 12 million, investments in property, plant and equipment in Rotem, in the amount of about NIS 5 million, additional investments in the Zomet project, in the amount of about NIS 4 million, and a deposit in a reserve for a shareholders' guarantee, in the amount of about NIS 4 million.</p> <p>For further information – see the Company's condensed consolidated statements of cash flows included in the Interim Reports.</p>
Short-term deposits and restricted cash	185,134	186,954	Most of the decrease derives from exchange rate differences in respect of a dollar deposit, in the amount of about NIS 2 million.
Trade receivables	120,640	132,273	<p>Most of the decrease stems from the impact of the seasonal factor on the sales, in the amount of about NIS 14 million, and a decline in balances receivable from Israel Electric Company, in the amount of about NIS 4 million.</p> <p>This decrease was partly offset by a collection date subsequent to the date of the report regarding sales of gas to Hadera, in the amount of about NIS 6 million.</p>
Receivables and debit balances, including derivative financial instruments	26,390	41,243	<p>Most of the decrease stems from a decline in the balance of Value Added Tax (VAT) receivable, in the amount of about NIS 15 million, deposits to suppliers, in the amount of about NIS 3 million, and balances receivable from Israel Electric Company, in the amount of about NIS 2 million.</p> <p>On the other hand, the decrease was offset, mostly by the balance receivable from the Hadera construction contractor, in the amount of about NIS 5 million.</p>
<b>Total current assets</b>	<b>780,851</b>	<b>690,420</b>	

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**2. Financial Position as at March 31, 2019 (in thousands of NIS) (Cont.)**

Category	3/31/2019	12/31/2018	Analysis
<b>Non-Current Assets</b>			
Long-term deposits and restricted cash	196,682	181,739	Most of the increase stems from an additional deposit in a debt service fund in accordance with Rotem's financing agreement, in the amount of about NIS 12 million, and an additional deposit in a reserve for a shareholders' guarantee in Rotem, in the amount of about NIS 4 million.  This increase was partly offset by release of a collateral, in the amount of about NIS 1 million, in respect of the guarantee provided in connection with Rotem's operation company.
Long-term loans and prepaid expenses	88,959	88,351	
Deferred tax assets, net	3,274	2,369	
Property, plant and equipment	2,414,264	2,422,960	Most of the decrease stems from depreciation on the property, plant and equipment in Rotem and Hadera (the Energy Center), in the aggregate amount of about NIS 26 million, and use of diesel oil, in the amount of about NIS 7 million, pursuant to the instruction of the System Administrator.  The decrease was partly offset by an investment in construction of the Hadera Power Plant, in the amount of NIS 15 million, additions to the property, plant and equipment in Rotem, in the amount of about NIS 6 million, and an investment in the Zomet project, in the amount of about NIS 3 million.
Usage right asset	19,375	-	The increase derives from the first-time application of IFRS 16.
Intangible assets	5,231	4,894	
<b>Total non-current assets</b>	<b>2,727,785</b>	<b>2,700,313</b>	
<b>Total assets</b>	<b>3,508,636</b>	<b>3,390,733</b>	

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**2. Financial Position as at March 31, 2019 (in thousands of NIS) (Cont.)**

Category	3/31/2019	12/31/2018	Analysis
<b>Current Liabilities</b>			
Current maturities of loans from banks and others	100,704	86,576	Most of the increase stems from update of the current maturities of Rotem in accordance with the repayment schedule, in the amount of about NIS 24 million.  The increase was partly offset mainly by repayment of the senior debt in Rotem, in the amount of about NIS 10 million.
Trade payables	206,449	177,268	Most of the increase derives from an increase in the balance of a supplier with respect to acquisition of the gas, in the amount of about NIS 53 million, mostly due to the payment date being subsequent to the date of the report.  The increase was partly offset by a decline in the balance due to Israel Electric Company, in the amount of about NIS 15 million, and the balance of suppliers relating to the construction in Hadera, in the amount of about NIS 10 million.
Dividend payable	53,600	–	During March 2019, a dividend was declared that was paid in April 2019.
Payables and other credit balances, including derivative financial instruments	38,096	24,049	Most of the increase derives from an increase in the VAT payable, in the amount of about NIS 6 million, an increase in liabilities to employees in respect of wages, in the amount of about NIS 4 million, and an increase in the interest payable, in the amount of about NIS 3 million.
Current maturities of liabilities in respect of a lease	2,367	–	The increase stems from the first-time application of IFRS 16 commencing from January 1, 2019.
Current taxes payable	–	3,669	The decrease is mostly due to payment of debts in respect of taxes on income in Hadera.
<b>Total current liabilities</b>	<b>401,216</b>	<b>291,562</b>	

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**2. Financial Position as at March 31, 2019 (in thousands of NIS) (Cont.)**

Category	3/31/2019	12/31/2018	Analysis
<b>Non-Current Liabilities</b>			
Long-term loans from banks and financial institutions	1,805,678	1,828,121	Most of the decrease stems from update of the current maturities of Rotem, in the amount of about NIS 24 million.
Debentures	282,883	282,883	
Liabilities in respect of a lease	17,106	-	The increase stems from the first-time application of IFRS 16 commencing from January 1, 2019.
Capital notes to related parties	1,193	1,166	
Employee benefits	177	177	
Deferred taxes, net	246,379	228,540	The increase stems from update of the deferred taxes as a result of income for the period.
<b>Total non-current liabilities</b>	<b>2,353,416</b>	<b>2,340,887</b>	
<b>Total liabilities</b>	<b>2,754,632</b>	<b>2,632,449</b>	

**3. Results of operations for the three-month period ended March 31, 2019 (in thousands of NIS)**

The Group's activities are subject to seasonal fluctuations as a result of changes in the official Time of Use of Electricity Tariff (hereinafter – "the TAOZ"), which is regulated and published by the Electricity Authority. The year is broken down into 3 seasons: "summer" (July and August), "winter" (December, January and February) and "transition" (March through June and September through November). In general, the electricity tariffs are higher in the summer and the winter than the tariffs in the transition periods.

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**3. Results of operations for the three-month period ended March 31, 2019 (in thousands of NIS) (Cont.)**

<b>Category</b>	<b>For the Three Months Ended</b>		<b>Analysis</b>
	<b>3/31/2019</b>	<b>3/31/2018</b>	
Sales	353,699	349,724	For detail regarding the change in the sales – see Section 6, below.
Cost of sales (less depreciation and amortization)	223,550	219,624	For detail regarding the change in the cost of sales – see Section 7, below.
Depreciation and amortization	26,830	26,277	
<b>Gross profit</b>	<b>103,319</b>	<b>103,823</b>	
Administrative and general expenses	16,953	11,739	Most of the increase derives from the increase in the expenses for professional services and legal fees (mainly as a result of costs in respect of the Tamar arbitration proceedings), in the amount of about NIS 2 million, costs relating to the equity remuneration plan, in the amount of about NIS 1 million, an increase in the costs of salaries and wages, in the amount of about NIS 1 million, and an increase in other costs, in the amount of about NIS 1 million.
Other income (expenses), net	1,001	(25)	
<b>Operating income</b>	<b>87,367</b>	<b>92,059</b>	
Financing expenses, net	18,863	15,251	Most of the increase stems from the impact of changes in the exchange rate of the dollar/shekel, in the amount of about NIS 5 million.
<b>Income before taxes on income</b>	<b>68,504</b>	<b>76,808</b>	
Taxes on income	17,595	20,042	The decrease derives from lower income in the first quarter of 2019.
<b>Income for the period</b>	<b>50,909</b>	<b>56,766</b>	

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**4. EBITDA**

The Company defines EBITDA as earnings (losses) before depreciation and amortization, net financing expenses or income and taxes on income. EBITDA is not recognized under IFRS or under any other generally accepted accounting standards as an indicator for the measurement of financial performance and should not be considered a substitute for profit or loss, cash flows from operating activities or other terms of operational performance or liquidity prescribed under IFRS.

EBITDA is not intended to represent monies that are available for distribution of dividends or other uses, since such monies may be used for servicing debt, capital expenditures, working capital and other liabilities. EBITDA is characterized by limitations that impair its use as an indicator of the Company's profitability, since it does not take into account certain costs and expenses deriving from the Company's business, which could materially affect its net income, such as financing expenses, taxes on income, depreciation, capital expenditures and other accompanying expenses.

The Company believes that the EBITDA data provides transparent information that is useful to investors in examining the Company's operating performances and in comparing them against the operating performance of other companies in the same sector or in other sectors with different capital structures, debt levels and/or income tax rates. This data item is also used by Company management when examining the Company's performance.

Set forth below is a calculation of the EBITDA data item for the periods presented. Other companies may calculate the EBITDA differently. Therefore, the EBITDA presentation herein may differ from those of other companies.

Calculation of the EBITDA (in thousands of NIS):

	<b>For the Three Months Ended</b>	
	<b>March 31</b>	
	<b>2019</b>	<b>2018</b>
<b>Sales</b>	353,699	349,724
Cost of sales (less depreciation and amortization)	(223,550)	(219,624)
Administrative and general expenses (less depreciation and amortization)	(16,339)	(11,658)
Other income (expenses)	1,001	(25)
<b>EBITDA</b>	<b>114,811</b>	<b>118,417</b>

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**5. Energy**

Set forth below are details of the sales, generation and purchases of electricity of the Rotem power plant and the Hadera energy center (in millions KW hours):

	For the Three Months Ended March 31	
	2019	2018
Sales to private customers	969	973
Sales to the System Administrator	43	38
<b>Total sales</b>	<b>1,012</b>	<b>1,011</b>

	For the Three Months Ended March 31	
	2019	2018
Generation of electricity	984	976
Purchase of electricity from the System Administrator	28	35
<b>Total sales</b>	<b>1,012</b>	<b>1,011</b>

	For the Three Months Ended March 31			
	2019		2018	
	Electricity availability	Net generation	Electricity availability	Net generation
	(%)	(KW hours)	(%)	(KW hours)
Rotem	100.0%	961	100.0%	951
Hadera	92.8%	23	99.8%	25

	For the Three Months Ended March 31	
	2019	2018
<b>Generation of steam</b>	<b>200</b>	<b>189</b>

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**6. Revenues**

Set forth below is detail of the Company's revenues (in NIS thousands):

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Revenues from sale of energy generated to private customers (1)	259,068	248,210
Revenues from sale of energy purchased to private customers (2)	6,339	8,165
Revenues from private customers in respect of infrastructures services (3)	67,379	74,524
Revenues from sale of energy to the System Administrator (4)	5,072	4,258
Revenues from sale of steam (5)	15,841	14,567
<b>Total revenues</b>	<b>353,699</b>	<b>349,724</b>

The Company's net revenues from the sale of electricity to its private customers stem from electricity sold at the generation component tariffs, as published by the Electricity Authority, with some discount. The weighted-average generation component tariff for 2019, as published by the Electricity Authority, is NIS 0.2909 per KW hour. This weighted-average is attributed to the mix of consumption in the market, which differs from that of the customers of Rotem and Hadera. In 2018, the weighted-average of the generation component tariff was NIS 0.2816 per KW hour. In addition, the Company's revenues from sale of steam are linked partly to the price of gas and partly to the Consumer Price Index.

For the three-month periods ended March 31, 2019 and 2018:

- (1) In the first quarter of 2019, there was an increase of about NIS 11 million in the revenues from sale of energy generated to private customers, deriving mainly from: (a) an increase in the total consumption of the customers, in the amount of about NIS 1 million; and (b) an increase in the generation component tariff, in the amount of about NIS 10 million.
- (2) Most of the decrease stems from a decline in the total energy purchased from Israel Electric Company for private customers, in the amount of about NIS 2 million.
- (3) Most of the decrease in the revenues from private customers for infrastructure services, in the amount of about NIS 7 million, stems from a decline in the infrastructure tariffs.
- (4) Most of the increase is the result of an increase in the total amount of energy sold to the System Administrator, in the amount of about NIS 1 million, compared with the corresponding quarter last year.
- (5) Most of the increase, in the amount of about NIS 1 million, stems from an increase in the total sales due to higher consumption and a higher price compared with the corresponding quarter last year.



**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**7. Cost of sales (less depreciation and amortization)**

Set forth below is detail of the Company's cost of sales (less depreciation and amortization) broken down into the following components (in NIS thousands):

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Gas and diesel oil (1)	126,839	117,758
Expenses to IEC for infrastructure services and purchase of electricity (2)	73,718	82,689
Gas transmission costs	8,046	6,822
Operating expenses (3)	14,947	12,355
<b>Total cost of sales (less depreciation and amortization)</b>	<b>223,550</b>	<b>219,624</b>

	<b>For the Three Months Ended March 31</b>	
	<b>2019</b>	<b>2018</b>
Gas consumption (MMBTU)	7,136,595	7,078,496
Average gas price (in dollars)	4.77	4.71

For the three-month periods ended March 31, 2019 and 2018:

- (1) An increase in the gas costs, in the amount of about NIS 9 million, due to: (a) an increase in the gas price, in the amount of about NIS 8 million, due to an increase in the exchange rate of the dollar and an increase in the generation component; and (b) an increase in the total generation, in the amount of about NIS 1 million.
- (2) A decrease of about NIS 9, million in the expenses to Israel Electric Company in respect of infrastructure services and purchase of electricity, deriving mainly from (a) a decrease in the expenses for infrastructure services, in the amount of about NIS 7 million, due to a decrease in the infrastructure tariffs; and (b) a decrease, in the amount of about NIS 2 million, due to a decline in the total purchases of electricity from Israel Electric Company for private customers.
- (3) Most of the increase in the gas transmission costs is the result of a higher fixed payment to payment Israel Natural Gas Lines due to expansion of the connection of the new PRMS facility in Hadera in May 2018.
- (4) Most of the increase stems from estimates in contemplation of commercial operation of Hadera Power Plant.

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**8. Liquidity and sources of financing (in NIS thousands)**

<b>Category</b>	<b>For the Three Months Ended</b>		<b>Analysis</b>
	<b>3/31/2019</b>	<b>3/31/2018</b>	
Cash flows provided by operating activities	190,636	93,937	<p>Most of the increase stems from an increase in the working capital, in the amount of about NIS 98 million (mainly as a result of a lower number of gas payments in the first quarter of 2019 due to timing differences).</p> <p>For further information – see the Company's interim statements of cash flows included in the interim reports.</p>
Cash flows used in investing activities	(44,699)	(74,298)	<p>Most of the decrease in the cash flows used in investing activities derives from higher investments in Hadera, in the amount of about NIS 30 million, in Zomet, in the amount of about NIS 8 million, and in Rotem, in the amount of about NIS 3 million, in the first quarter of 2018, and from a withdrawal from restricted deposits, in the amount of about NIS 5 million, in the first quarter of 2018, mainly due to update of a collateral in respect of a guarantee to Israel Electric Company.</p> <p>This decrease was offset by deposits in restricted deposits, in the amount of about NIS 16 million, mainly due to update of a debt service fund and a reserve for a shareholders' guarantee in Rotem, and an additional deposit in a reserve for a shareholders' guarantee in the first quarter of 2019.</p>
Cash flows used in financing activities	(27,020)	(19,256)	<p>Most of the increase in the cash flows used in financing activities stems from lower withdrawals from the financing agreement framework in the Hadera project: about NIS 22 million was withdrawn in the first quarter of 2018, whereas in the first quarter of 2019 no withdrawals were made.</p> <p>On the other hand, the senior debt in Rotem was lower in the first quarter of 2019: about NIS 26 million in the first quarter of 2019, compared with about NIS 41 million in the first quarter of 2019.</p>

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Explanations of the Board of Directors regarding the State of the Group's Affairs (Cont.)**

**8. Liquidity and sources of financing (in NIS thousands) (Cont.)**

The following table details the debt, cash and cash equivalents, deposits and restricted cash, as at March 31, 2019 (in thousands of NIS):

	<u>Rotem</u>	<u>Hadera</u>	<u>Energy</u>	<u>Zomet</u>	<u>Others</u>	<u>Consolidated</u>
Debt (not including accrued interest)	1,245,826	649,564	293,875	–	1,193	2,190,458
Cash and cash equivalents and short-term deposits	235,144	34,995	273,545	2,825	2,418	548,927
Restricted cash (including debt service reserves)	186,946	6,402	88,228	–	–	281,576
Debt service reserves (out of the restricted cash)	106,810	–	46,489	–	–	153,299

– During the period of the report, Rotem repaid about NIS 10 million (relating to principal only) of its loans.

The following table details the debt, cash and cash equivalents, deposits and restricted cash, as at December 31, 2018 (in thousands of NIS):

	<u>Rotem</u>	<u>Hadera</u>	<u>Energy</u>	<u>Zomet</u>	<u>Others</u>	<u>Consolidated</u>
Debt (not including accrued interest)	1,259,452	644,253	293,875	–	1,166	2,198,746
Cash and cash equivalents	97,077	44,975	286,314	632	1,105	430,103
Restricted cash (including debt service reserves)	172,546	6,459	89,535	–	–	268,540
Debt service reserves (out of the restricted cash)	90,499	–	46,488	–	–	136,987

**OPC Energy Ltd.**  
**Report of the Board of Directors**

**Other Information**

**9. Significant Events in the Period of the Report and Thereafter**

For details – see Part A “Update of the Company’s Business” and Notes 5 and 6 to the interim financial statements.

**10. Outstanding Liabilities by Maturity Dates**

For details regarding the Company’s outstanding liabilities – see the Immediate Report regarding outstanding liabilities by maturity dates that is published by the Company concurrent with publication of this report.

**11. Corporation Governance**

Contributions

As part of the Company’s policies with respect to contributions, in March 2019 the following contributions were approved:

- The amount of NIS 1,000 thousand, which was paid in April 2019, to “Password for Every Student”. “Password for Every Student” receives contributions also from parties related to indirect interested parties in the Company (for details – see Sections 2.3.1 and 7.3 to the Description of the Company’s Business in the Periodic Report for 2018). The Company’s CFO is a representative of the project’s Steering Committee without compensation.
- The amount of NIS 150 thousand – to the “Nirim” Society.
- The amount of NIS 150 thousand – to the “Rakhashay Lev” Society.
- The amount of NIS 150 thousand – to the “Technoda Hadera Givat Olga” Society.
- The amount of NIS 200 thousand – to the Society for Advancement of the Dimona Sport Club and Advancement of the Youth.

\_\_\_\_\_  
Yoav Doppelt  
Chairman of the Board of Directors

\_\_\_\_\_  
Giora Almogy  
CEO

Date: May 28, 2019

**OPC Energy Ltd.**

**Condensed Consolidated Interim Financial Statements**

**At March 31, 2019**

**(Unaudited)**

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**OPC Energy Ltd.**  
**Condensed Consolidated Interim Financial Statements**  
**At March 31, 2019**  
**Unaudited**  
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**Somekh Chaikin KPMG**

Millennium Tower  
17 Ha'arba'a St., POB 609, Tel-Aviv  
6100601



03-6848000

**Review Report of the Independent Auditors to the Shareholders of OPC Energy Ltd.**

**Introduction**

We have reviewed the accompanying financial information of OPC Energy Ltd. (hereinafter – “the Company”) and its subsidiaries, including the condensed consolidated interim statement of financial position as at March 31, 2019 and the condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three-month period then ended. The Board of Directors and Management are responsible for the preparation and presentation of financial information for these interim periods in accordance with IAS 34 “Financial Reporting for Interim Periods”, and are also responsible for the preparation of financial information for these interim periods in accordance with Section D of the Securities Regulations (Periodic and Immediate Reports), 1970. Our responsibility is to express a conclusion on the financial information for these interim periods based on our review.

**Scope of the Review**

We conducted our review in accordance with Review Standard 1, “Review of Financial Information for Interim Periods Performed by the Independent Auditor of the Entity” of the Institute of Certified Public Accountants in Israel. A review of financial information for interim periods consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in Israel and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

**Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the above-mentioned financial information was not prepared, in all material respects, in accordance with International Accounting Standard IAS 34.

In addition to that mentioned in the previous paragraph, based on our review, nothing has come to our attention that causes us to believe that the above-mentioned financial information does not comply, in all material respects, with the disclosure requirements of Section D of the Securities Regulations (Periodic and Immediate Reports), 1970.

Sincerely,

**Somekh Chaikin**  
**Certified Public Accountants (Isr.)**

**May 28, 2019**

**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Financial Position**

	At March 31		At December 31
	2019	2018	2018
	(Unaudited)		(Audited)
In Thousands of New Israeli Shekels			
<b>Current Assets</b>			
Cash and cash equivalents	448,687	508,625	329,950
Short-term deposits and restricted cash	185,134	752	186,954
Trade receivables	120,640	120,953	132,273
Other receivables and debit balances, including derivative financial instruments	26,390	44,480	41,243
<b>Total current assets</b>	<b>780,851</b>	<b>674,810</b>	<b>690,420</b>
<b>Non-Current Assets</b>			
Long-term deposits and restricted cash	196,682	270,863	181,739
Long-term prepaid expenses	88,959	*89,321	88,351
Deferred tax assets, net	3,274	852	2,369
Property, plant and equipment	2,414,264	*2,267,233	2,422,960
Usage right asset	19,375	-	-
Intangible assets	5,231	5,603	4,894
<b>Total non-current assets</b>	<b>2,727,785</b>	<b>2,633,872</b>	<b>2,700,313</b>
<b>Total assets</b>	<b>3,508,636</b>	<b>3,308,682</b>	<b>3,390,733</b>

\* Reclassified.

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.



**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Financial Position**

	At March 31		At December 31
	2019	2018	2018
	(Unaudited)		(Audited)
In Thousands of New Israeli Shekels			
<b>Current Liabilities</b>			
Current maturities of loans from banks and others	100,704	107,830	86,576
Trade payables	206,449	146,282	177,268
Dividend payable	53,600	–	–
Other payables and credit balances, including derivative financial instruments	38,096	43,403	24,049
Current maturities of liabilities in respect of lease	2,367	–	–
Current tax liabilities	–	2,716	3,669
<b>Total current liabilities</b>	<b>401,216</b>	<b>300,231</b>	<b>291,562</b>
<b>Non-Current Liabilities</b>			
Loans from banks and financial institutions	1,805,678	1,757,493	1,828,121
Debentures	282,883	293,994	282,883
Long-term liabilities in respect of lease	17,106	–	–
Capital notes and loans from related parties	1,193	1,827	1,166
Employee benefits	177	280	177
Liabilities for deferred taxes, net	246,379	211,391	228,540
<b>Total non-current liabilities</b>	<b>2,353,416</b>	<b>2,264,985</b>	<b>2,340,887</b>
<b>Total liabilities</b>	<b>2,754,632</b>	<b>2,565,216</b>	<b>2,632,449</b>
<b>Equity</b>			
Share capital	1,319	1,319	1,319
Premium on shares	361,005	361,005	361,005
Capital reserves	83,159	82,423	84,749
Retained earnings	234,342	201,990	230,731
<b>Total equity attributable to the Company's owners</b>	<b>679,825</b>	<b>646,737</b>	<b>677,804</b>
<b>Non-controlling interests</b>	<b>74,179</b>	<b>96,729</b>	<b>80,480</b>
<b>Total equity</b>	<b>754,004</b>	<b>743,466</b>	<b>758,284</b>
<b>Total liabilities and equity</b>	<b>3,508,636</b>	<b>3,308,682</b>	<b>3,390,733</b>

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**Yoav Doppelt**  
Chairman of the Board of Directors

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**Giora Almogy**  
CEO

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**Tzahi Goshen**  
CFO

Approval date of the financial statements: May 28, 2019

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Income**

	For the		
	Three Months Ended		Year Ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels		
Sales	353,699	349,724	1,306,471
Cost of sales (net of depreciation and amortization)	223,550	219,624	929,401
Depreciation and amortization	26,830	26,277	107,208
<b>Gross profit</b>	<b>103,319</b>	<b>103,823</b>	<b>269,862</b>
Administrative and general expenses	16,953	11,739	51,186
Other income (expenses), net	1,001	(25)	6,235
<b>Operating income</b>	<b>87,367</b>	<b>92,059</b>	<b>224,911</b>
Financing expenses	20,145	16,956	97,893
Financing income	1,282	1,705	7,302
<b>Financing expenses, net</b>	<b>18,863</b>	<b>15,251</b>	<b>90,591</b>
<b>Income before taxes on income</b>	<b>68,504</b>	<b>76,808</b>	<b>134,320</b>
Taxes on income	17,595	20,042	36,803
<b>Income for the period</b>	<b>50,909</b>	<b>56,766</b>	<b>97,517</b>
<b>Income attributable to:</b>			
The Company's owners	39,611	44,293	73,034
Non-controlling interests	11,298	12,473	24,483
<b>Income for the period</b>	<b>50,909</b>	<b>56,766</b>	<b>97,517</b>
<b>Income per share attributable to the Company's owners</b>			
Basic income per share (in NIS)	<b>0.30</b>	<b>0.34</b>	<b>0.55</b>
Diluted income per share (in NIS)	<b>0.30</b>	<b>0.33</b>	<b>0.55</b>

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Comprehensive Income**

	For the		
	Three Months Ended		Year Ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels		
Income for the period	50,909	56,766	97,517
<b>Components of other comprehensive income (loss) that after the initial recognition in the statement of comprehensive income were or will be transferred to the statement of income</b>			
Effective portion of change in the fair value of cash-flow hedges	(1,601)	2,499	2,211
Net change in fair value of derivative financial instruments used for hedging cash flows recorded to the cost of the hedged item	(71)	(120)	(590)
Tax benefit (taxes) in respect of items of other comprehensive income (loss)	384	(547)	(373)
<b>Total other comprehensive income (loss) for the period, net of tax</b>	<b>(1,288)</b>	<b>1,832</b>	<b>1,248</b>
<b>Total comprehensive income for the period</b>	<b>49,621</b>	<b>58,598</b>	<b>98,765</b>
<b>Total comprehensive income attributable to:</b>			
The Company's owners	38,323	46,125	74,282
Holders of non-controlling interests	11,298	12,473	24,483
<b>Total comprehensive income for the period</b>	<b>49,621</b>	<b>58,598</b>	<b>98,765</b>

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Changes in Equity**

**Attributable to the owners of the Company**

	Share capital	Premium on shares	Capital reserve for transactions with non-controlling interests and in respect of merger	Hedging reserve	Capital reserve for transactions with shareholders	Capital reserve for share-based payments	Retained earnings	Total	Non-controlling interests	Total equity
(Unaudited)										
In Thousands of New Israeli Shekels										
<b>For the three-month period ended March 31, 2019</b>										
<b>Balance at January 1, 2019</b>	1,319	361,005	2,598	451	77,930	3,770	230,731	677,804	80,480	758,284
Acquisition of non-controlling interests	–	–	(1,501)	–	–	–	–	(1,501)	1	(1,500)
Share-based payment	–	–	–	–	–	1,199	–	1,199	–	1,199
Dividends to the Company's shareholders	–	–	–	–	–	–	(36,000)	(36,000)	–	(36,000)
Dividends to holders of non-controlling interests	–	–	–	–	–	–	–	–	(17,600)	(17,600)
Other comprehensive loss for the period, net of tax	–	–	–	(1,288)	–	–	–	(1,288)	–	(1,288)
Income for the period	–	–	–	–	–	–	39,611	39,611	11,298	50,905
<b>Balance at March 31, 2019</b>	<b>1,319</b>	<b>361,005</b>	<b>1,097</b>	<b>(837)</b>	<b>77,930</b>	<b>4,969</b>	<b>234,342</b>	<b>679,825</b>	<b>74,179</b>	<b>754,004</b>
<b>For the three-month period ended March 31, 2018</b>										
<b>Balance at January 1, 2018</b>	1,319	361,005	2,598	(797)	77,930	548	157,697	600,300	84,239	684,539
Acquisition of non-controlling interests	–	–	–	–	–	–	–	–	17	17
Share-based payment	–	–	–	–	–	312	–	312	–	312
Other comprehensive income for the period, net of tax	–	–	–	1,832	–	–	–	1,832	–	1,832
Income for the period	–	–	–	–	–	–	44,293	44,293	12,473	56,766
<b>Balance at March 31, 2018</b>	<b>1,319</b>	<b>361,005</b>	<b>2,598</b>	<b>1,035</b>	<b>77,930</b>	<b>860</b>	<b>201,990</b>	<b>646,737</b>	<b>96,725</b>	<b>743,466</b>

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Changes in Equity**

**Attributable to the owners of the Company**

	Share capital	Premium on shares	Capital reserve in respect of merger	Hedging reserve	Capital reserve for transactions with shareholders	Capital reserve for share- based payments	Retained earnings	Total	Non- controlling interests	Total equity
(Audited)										
In Thousands of New Israeli Shekels										
<b>For the year ended December 31, 2018</b>										
<b>Balance at January 1, 2018</b>	1,319	361,005	2,598	(797)	77,930	548	157,697	600,300	84,239	684,539
Acquisition of non-controlling interests	-	-	-	-	-	-	-	-	17	17
Share-based payment	-	-	-	-	-	3,222	-	3,222	-	3,222
Capital reserve in respect of transactions with holders of non-controlling interests	-	-	-	-	-	-	-	-	741	741
Dividends to holders of non-controlling interests	-	-	-	-	-	-	-	-	(29,000)	(29,000)
Other comprehensive income for the year, net of tax	-	-	-	1,248	-	-	-	1,248	-	1,248
Income for the year	-	-	-	-	-	-	73,034	73,034	24,483	97,517
<b>Balance at December 31, 2018</b>	<b>1,319</b>	<b>361,005</b>	<b>2,598</b>	<b>451</b>	<b>77,930</b>	<b>3,770</b>	<b>230,731</b>	<b>677,804</b>	<b>80,480</b>	<b>758,284</b>

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Cash Flows**

	For the		
	Three Months Ended		Year Ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels		
<b>Cash flows from operating activities</b>			
Income for the period	50,909	56,766	97,517
<b>Adjustments:</b>			
Depreciation and amortization	35,208	27,767	118,922
Financing expenses, net	18,863	15,251	90,591
Taxes on income	17,595	20,042	36,803
Share-based payment transactions	1,199	312	3,222
Revaluation of derivative financial instruments	1,080	1,875	4,018
	<u>124,854</u>	<u>122,013</u>	<u>351,073</u>
Change in trade and other receivables	23,490	40,260	35,306
Change in trade and other payables	46,334	(68,336)	(75,537)
Change in employee benefits	-	-	(103)
	<u>69,824</u>	<u>(28,076)</u>	<u>(40,334)</u>
Taxes paid	(4,042)	-	-
<b>Net cash provided by operating activities</b>	<u>190,636</u>	<u>93,937</u>	<u>310,739</u>
<b>Cash flows from investing activities</b>			
Interest received	1,037	270	837
Short-term deposits and restricted cash, net	(892)	(66)	(104,101)
Withdrawals from long-term restricted cash	1,514	-	66,450
Deposits in long-term restricted cash	(16,236)	(5,176)	(58,913)
Long-term prepaid expenses and loans granted	-	(7,876)	(14,834)
Acquisition of property, plant and equipment	(28,690)	(53,413)	(249,197)
Acquisition of subsidiary, net of cash acquired	-	(8,125)	(8,125)
Acquisition of intangible assets	(282)	-	(473)
Receipts (payments) in respect of derivative financial instruments, net	(1,150)	88	114
<b>Net cash used in investing activities</b>	<u>(44,699)</u>	<u>(74,298)</u>	<u>(368,242)</u>

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

**OPC Energy Ltd.**  
**Condensed Consolidated Interim Statements of Cash Flows**

	For the		
	Three Months Ended		Year Ended
	March 31		December 31
	2019	2018	2018
	(Unaudited)		(Audited)
	In Thousands of New Israeli Shekels		
<b>Cash flows from financing activities</b>			
Interest paid	(15,524)	(16,363)	(88,748)
Costs paid in advance in respect of taking out of loans	(984)	(986)	(2,328)
Dividends paid to holders of non-controlling interests	–	–	(29,000)
Receipt of long-term loans	–	22,000	122,000
Repayment of loans from banks and others	(9,929)	(23,907)	(101,015)
Repayment of debentures	–	–	(22,400)
Repayment of principal of liabilities in respect of lease	(583)	–	–
<b>Net cash used in financing activities</b>	<b>(27,020)</b>	<b>(19,256)</b>	<b>(121,491)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>118,917</b>	<b>383</b>	<b>(178,994)</b>
Cash and cash equivalents at beginning of the period	329,950	508,181	508,181
Impact of changes in the currency exchange rate on the balances of cash and cash equivalents	(180)	61	763
<b>Cash and cash equivalents at end of the period</b>	<b>448,687</b>	<b>508,625</b>	<b>329,950</b>

The accompanying notes to the condensed consolidated interim financial statements are an integral part thereof.

**OPC Energy Ltd.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**At March 31, 2019**

**Note 1 – The Reporting Entity**

OPC Energy Ltd. (hereinafter – “the Company”) was incorporated in Israel on February 2, 2010. The Company’s registered address is 121 Menachem Begin Blvd., Tel-Aviv, Israel. The Company is controlled by Kenon Holdings Ltd. (hereinafter – “the Parent Company”), a company incorporated in Singapore, the shares of which are “dual listed” for trading on both the New York Stock Exchange (NYSE) and the Tel-Aviv Stock Exchange Ltd. (hereinafter – “the Stock Exchange”). Up to February 15, 2018, the Company was controlled by I.C. Power Asia Development Ltd. (hereinafter – “Asia Development”), on which date Asia Development transferred its entire holdings in the Company to the Parent Company.

The Company is a public company the securities of which are listed for trading on the Stock Exchange. The Company and its subsidiaries, the financial statements of which are consolidated with those of the Company (hereinafter – “the Group”), operate in Israel in the area of generation of electricity, including initiation, development, construction and operation of power plants, and the generation and supply thereof to customers.

The subsidiary, OPC Rotem Ltd. (hereinafter – “Rotem”), won a tender for construction of a private power plant located in the Rotem Plain having a capacity pursuant to the generation license of about 466 megawatts (MW) and signed an agreement for sale of the electricity (power purchase agreement) (hereinafter – “the PPA”) with Israel Electric Company (hereinafter – “IEC”). In addition, as a result of its win in the above-mentioned tender, Rotem was issued a license to produce and sell electricity for a period of 30 years. On July 6, 2013, Rotem commenced commercial operation of the power plant.

The subsidiary, OPC Hadera Ltd. (hereinafter – “Hadera”), is currently constructing a power plant that uses cogeneration technology (a power plant that generates electricity and steam). Hadera holds a conditional license for construction of a power plant adjacent to Hadera Paper Mills, having an installed capacity of up to 148.5 MW. In the Company’s estimation, commercial operation of the Hadera power plant is expected to take place in the fourth quarter of 2019 – this taking into account the delays that occurred in connection completion of the construction and the actions necessary in order to finish the said construction.

The Group’s activities are subject to regulation, including, among other things, the provisions of the Electricity Sector Law, 1996, and the regulations promulgated thereunder, resolutions of the Electricity Authority, the provisions of the Law for Promotion of Competition and Reduction of Concentration, 2013, and regulation in connection with licensing of businesses, planning and construction, and environmental quality. The Electricity Authority is authorized to issue licenses under the Electricity Sector Law (licenses for facilities having a generation capacity in excess of 100 MW also require approval of the Minister of National Infrastructures, Energy and Water), supervise the license holders (transmission, distribution, supply and generation of electricity and, thereafter, also system management), determine tariffs and provide benchmarks for the level, nature and quality of the services that are required from a holder of a “Essential Service Provider” license. Accordingly, the Electricity Authority supervises both IEC and private electricity producers.

The Group’s activities are subject to seasonal fluctuations as a result of changes in the official Time of Use of Electricity Tariff (hereinafter – “the TAOZ”), which is regulated and published by the Electricity Authority. The year is broken down into 3 seasons: “summer” (July and August), “winter” (December, January and February) and “transition” (March through June and September through November) and for each season a different tariff is set. The Company’s results are based on the generation component, which is part of the TAOZ, and as a result there is a seasonal effect.



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**Notes to the Unaudited Interim Consolidated Financial Statements**  
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**Note 2 – Basis of Preparation of the Financial Statements**

**A. Declaration of compliance with International Financial Reporting Standards (IFRS)**

The condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard 34 (hereinafter – “IAS 34”), “Financial Reporting for Interim Periods” and do not include all of the information required in complete, annual financial statements. These statements should be read together with the financial statements for the year ended December 31, 2018 (hereinafter – “the Annual Financial Statements”). In addition, these financial statements were prepared in accordance with the provisions of Section D of the Securities Regulations (Periodic and Immediate Reports) 1970.

The condensed, consolidated, interim financial statements were approved for publication by the Company’s Board of Directors on May 28, 2019.

**B. Functional and presentation currency**

The New Israeli Shekel (NIS) is the currency that represents the principal economic environment in which the Group operates. Accordingly, the NIS is the functional currency of the Group. The NIS also serves as the presentation currency in these financial statements. Currencies other than the NIS constitute foreign currency.

**C. Use of estimates and judgment**

In preparation of the condensed consolidated interim financial statements in accordance with IFRS, Company management is required to use judgment when making estimates, assessments and assumptions that affect implementation of the policies and the amounts of assets, liabilities, income and expenses. It is clarified that the actual results are likely to be different than these estimates.

Management’s judgment, at the time of implementing the Group’s accounting policies and the main assumptions used in the estimates involving uncertainty, are consistent with those used in the Annual Financial Statements, except for that stated in Note 3.

**Note 3 – Significant Accounting Policies**

The Group’s accounting policies in these condensed consolidated interim financial statements are the same as the policies applied in the Annual Financial Statements, except as detailed below.

**A. Transactions with holders of non-controlling interests**

Transactions with holders of non-controlling interests in subsidiaries are accounted for as transactions with shareholders. In these transactions, the difference between the fair value of any consideration paid and the amount at which the non-controlling interests are adjusted in order to reflect the changes in their relative rights in the subsidiary, is recognized directly in the equity attributable to the owners of the Company and it is classified in a capital reserve for transaction with holders of non-controlling interests.

**Note 3 – Significant Accounting Policies (Cont.)**

**B. First-time application of new accounting standards, amendments and interpretations**

**IFRS 16, Leases**

Commencing from the first quarter of 2019, the Group applies IFRS 16, Leases (hereinafter – “the Standard”), which supersedes International Accounting Standard (IAS) 17 “Leases” and the related Interpretations. The provisions of the Standard cancel the existing requirement that lessees classify the lease as an operating or a financing lease. Instead, as for lessees, the new Standard presents a uniform model for the accounting treatment of all leases, pursuant to which the lessee is to recognize an asset and a liability in respect of the lease in its financial statements.

The Group elected to apply the transitional provision whereby on the initial application date it will recognize a lease liability based on the present value of the balance of the future lease payments, discounted based on the lessee’s incremental interest rate on that date, and at the same time it will recognize a “lease usage right” asset in the same amount as the liability, adjusted for the lease payments made in advance or accrued that were recognized as an asset or a liability prior to the initial application date. As a result, the Standard did not have a material impact on the Group’s equity on the initial application date.

In addition, as part of application of the Standard, the Group elected to apply the following leniencies:

- (1) To use a single discount rate for a portfolio of leases with similar characteristics.
- (2) Not to include initial direct costs in measurement of the usage right asset on the initial application date.

**Impact of application of the Standard in the period of the report**

As a result of application of the Standard in connection with leases classified as operating leases pursuant to IAS 17, the Group recognized usage right assets and lease liabilities as at January 1, 2019, in the amount of NIS 19,797 thousand. The impact of application of the Standard on the Group’s results is not material.

Set forth below are the highlights of the changes in the accounting policies as a result of application of the Standard commencing from January 1, 2019:

**1. Determination whether an arrangement includes a lease**

On the date of entering into a lease, the Group determines whether the arrangement includes a lease, while examining if the arrangement transfers a right to control use of an identified asset for a period of time in exchange for a payment. When making the evaluation if an arrangement transfers a right to control use of an identified asset, the Group examines whether over the period of the lease it has the following two rights:

- (a) The right to obtain essentially all the economic benefits from use of the identified asset; and
- (b) The right to direct the use of the identified asset.

**Note 3 – Significant Accounting Policies (Cont.)**

**B. First-time application of new accounting standards, amendments and interpretations (Cont.)**

**IFRS 16, Leases (Cont.)**

1. Determination whether an arrangement includes a lease (Cont.)

For lease contracts that include components that are not lease components, such as services or maintenance, which relate to the lease component, the Group elected to treat the contract as separate lease components.

2. Leased assets and liabilities in respect of a lease

Contracts that convey to the Group control over use of a lease asset during a period in exchange for consideration are treated as leases. Upon the initial recognition, the Group recognizes a liability in an amount equal to the present value of the future lease payments (these payments do not include certain variable lease payments), and at the same time the Group recognizes a usage right asset in an amount equal to the lease liability, adjusted for lease payments made in advance or accrued, and with the addition of direct expenses incurred in the lease.

Since the interest rate embedded in the Group's leases cannot be easily determined, the Group uses the lessee's incremental interest rate.

Subsequent to the initial recognition, the usage right asset is accounted for using the cost model, and is amortized over the period of the lease or the useful life of the asset – whichever is shorter.

The Group elected to apply the practical leniency whereby short-term leases of up to one year or leases wherein the base asset has a low value, are accounted for in such a manner that the lease fees (the rent) are recorded in the statement of income using the "straight-line" method over the period of the lease, without recognizing a lease asset and/or a lease liability in the statement of financial position.

3. Period of the lease

The period of the lease is determined as the period in which the lease may not be cancelled, together with periods covered by an option to extend or cancel the lease where it is reasonably certain that the lessee will exercise or not exercise the option, respectively.

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**Note 3 – Significant Accounting Policies (Cont.)**

**B. First-time application of new accounting standards, amendments and interpretations (Cont.)**

**IFRS 16, Leases (Cont.)**

4. Variable lease payments

Variable lease payments that depend on the CPI are initially measured by use of the CPI existing on the commencement date of the lease and are included in measurement of the lease liability. Where there is a change in the cash flows from the future lease payments deriving from the change in the CPI or exchange rate, the balance of the liability is updated against the usage right asset.

Other variable lease payments that are not included in measurement of the lease liability are recorded in the statement of income on the date the conditions for these payments exist.

5. Amortization of usage right asset

Subsequent to the commencement date of the lease, a usage right asset is measured using the cost method, less accumulated amortization and accrued losses from decline in value and is adjusted in respect of re-measurements of the liability in respect of the lease. The amortization is calculated on the “straight-line” basis over the useful life or the contractual lease period – whichever is shorter.

– Land – 25 years.

– Offices – 9 years.

**C. Accounting standards not yet adopted**

**Amendment to IFRS 3 “Business Combinations”**

The Amendment clarifies whether a transaction to acquire activities is the acquisition of a “business” or an asset. For purposes of this examination, the Amendment added the possibility of utilizing the concentration test so that if substantially all of the fair value of the acquired assets is concentrated in a single identifiable asset or a group of similar identifiable assets, the acquisition will be of an asset. In addition, the minimum requirements for definition as a business have been clarified, such as for example the requirement that the acquired processes be substantive so that in order for it to be a business, the operation shall include at least one input element and one substantive process, which together significantly contribute to the ability to create outputs. Furthermore, the Amendment narrows the reference to the outputs element required in order to meet the definition of a business and examples were added illustrating the aforesaid examination. The Amendment is effective for transactions to acquire an asset or business for which the acquisition date is in annual periods beginning on or after January 1, 2020, with earlier application being permitted. The Group has not yet commenced examining the impacts of application of the Amendment on the financial statements.

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**Note 4 – Financial Instruments**

The carrying amounts in the books of certain financial assets and liabilities, including short-term and long-term deposits, cash and cash equivalents, restricted cash, trade receivables, other receivables, derivative financial instruments, trade payables and other payables are the same as or approximate their fair values.

The fair values of the other financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

**Fair value**

	<b>At March 31, 2019</b>	
	<b>Book</b>	<b>Fair</b>
	<b>Value*</b>	<b>Value</b>
	<b>In Thousands of NIS</b>	
Loans from banks and financial institutions	1,896,402	2,239,296
Debentures	297,300	321,587
	<b>At March 31, 2018</b>	
	<b>Book</b>	<b>Fair</b>
	<b>Value*</b>	<b>Value</b>
	<b>In Thousands of NIS</b>	
Loans from banks and financial institutions	1,830,794	2,140,176
Debentures	315,942	352,352
	<b>At December 31, 2018</b>	
	<b>Book</b>	<b>Fair</b>
	<b>Value*</b>	<b>Value</b>
	<b>In Thousands of NIS</b>	
Loans from banks and financial institutions	1,904,743	2,082,275
Debentures	293,875	303,582

\* Includes current maturities and interest payable.

**OPC Energy Ltd.**  
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**Note 4 – Financial Instruments (Cont.)**

Derivative financial instruments are measured at fair value, using the Level 2 valuation method. The fair value is measured using the discounted future cash flows method, on the basis of observable data.

In addition, the Company enters into transactions in derivative financial instruments in order to hedge foreign currency risks. Derivative financial instruments are recorded based on their fair value. The fair value of the derivative financial instruments is based on prices, rates and interest rates that are received from banks, brokers and through customary trading software. The fair value of the derivative financial instruments is estimated on the basis of the data received, using valuation and pricing techniques that are characteristic of the various instruments in the different markets. The fair value measurement of long-term derivative financial instruments is estimated by discounting the cash flows deriving from them, based on the terms and maturity of each instrument and using market interest rates for similar instruments as at the measurement date. Changes in the economic assumptions and the valuation techniques could materially affect the fair value of the instruments.

Set forth below is data regarding the representative rates of exchange and the Consumer Price Index (CPI):

	<b>CPI (in points)</b>	<b>Exchange rate of the dollar against shekel</b>	<b>Exchange rate of the euro against shekel</b>
March 31, 2019	107.4	3.632	4.078
March 31, 2018	106.1	3.514	4.329
December 31, 2018	107.7	3.748	4.292
<b>Change during the three-month period ended:</b>			
March 31, 2019	(0.3)%	(3.1)%	(4.9)%
March 31, 2018	(0.3)%	1.4%	4.2%
<b>Change during the year ended:</b>			
December 31, 2018	1.2%	8.1%	3.3%

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**Note 5 – Additional Information**

A. Further to that stated in Note 24(A)(6) to the Annual Financial Statements, in January 2019, an outline was determined for expansion of the activities of the Group to which the Company belongs (“the Idan Ofer Group” as defined in the outline) in the area of generation of electricity from an economy-wide business concentration perspective (hereinafter – “the Business Concentration Outline”). The Business Concentration Outline is intended to allow the Business Concentration Committee to revise its opinion regarding provision of a conditional license for generation of electricity to Zomet, and to notify the Electricity Authority that it does not see a preclusion for reasons of economy-wide business concentration to granting the requested license to Zomet, however this being only after compliance with the conditions provided in the Business Concentration Outline, and to permit the Business Concentration Committee to notify the Electricity Authority that it does not see a preclusion for reasons of economy-wide business concentration to allowing the Idan Ofer Group to receive additional licenses in the area of electricity generation up to the scope provided in the sector arrangement. Subsequent to the date of the report, in April 2019, sale of the shares of the Idan Ofer Group (as defined in the Business Concentration Outline) in Media Network Ltd., which was stipulated as a condition in the Business Concentration Outline – this being after approval of the Business Concentration Committee to the transferee and receipt of approval of the Second Authority for Television and Radio.

Subsequent to the date of the report, in April 2019, the conditional license for construction of the power plant for a period of 66 months was delivered to Zomet, this being further to the notification of the Electricity Authority and receipt of the approval of the Minister of Energy and after Zomet deposited a guarantee as required, in the amount of about NIS 5 million. The conditional license entered into effect on April 11, 2019 (the date it was signed by the Minister of Energy), and it is conditional on compliance with milestones as provided in the license, including reaching commercial operation within 66 months, as well as additional conditions that are customary in licenses of this type.

In addition, further to that stated in Note 24(A)(6) to the Annual Financial Statements, in February 2019, the Supreme Court rejected the appeal filed by the City of Kiryat Gat in the Supreme Court.

In January 2019, the Company signed an agreement with the holders of the non-controlling interests in Zomet, for which a trustee holds 5% of Zomet’s share capital (hereinafter – “the Sellers”), whereby the Sellers will sell their shares in Zomet to the Company (hereinafter – “the Sale Agreement” and “Shares Being Sold”, respectively) in increments, on a number of dates and subject to fulfillment of milestones.

The aggregate consideration to be paid by the Company for the Shares Being Sold is NIS 27 million, and it is to be paid in installments against a proportionate transfer of the Shares Being Sold to the Company on every payment date and subject to fulfillment of the milestones provided in the Sale Agreement. Upon signing of the Sale Agreement, the Company made the first payment, in the amount of NIS 1.5 million. The balance of the consideration is to be paid in two installments (against transfer of the balance of the Shares Being Sold, as stated), subject to fulfillment of the milestones in the Zomet project, where most of the consideration, in the amount of NIS 21 million, is to be paid upon completion of the financial closing (if and when completed).

**OPC Energy Ltd.**  
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**Note 5 – Additional Information (Cont.)**

A. (Cont.)

The Zomet project is subject to fulfillment of various preconditions and taking of other actions that have not yet been fulfilled, including receipt of a generation license from the Electricity Authority and assurance of the ability to output electricity from the project site and maintenance (reservation) of a position in the network (electricity grid) at the time required for execution of the project. In addition, completion of the Zomet project is subject to completion of a financial closing by the date required, among other things, by force of Regulation 914, which as at the date of this Report is January 1, 2020. The Company is continuing to take action in order to fulfill the conditions along with execution of other activities – this being for purposes of advancing the Zomet project toward a financial closing, however there is no certainty that the Zomet project will ultimately be completed, and that stated is contingent on, among other things, factors not under the Company's control.

- B. Further to that stated in Note 24(A)(3) to the Annual Financial Statements, in January 2019, an amendment was signed to credit framework agreement whereby the operation and maintenance of the Rotem Power Plant will be performed by Rotem itself in place of Rotem Operations Company as provided in the agreement. As part of the amendment to the agreement, Rotem committed to deposit an additional amount of NIS 4 million in the Owners' Guarantee Fund (as defined in 14.C.1.). Pursuant to the amendment, in February 2019 the corporate guarantee provided by Veridis (the holders of the non-controlling interests in Rotem) and the Company, in the amount of NIS 1 million was released. Rotem Operations Company is expected to voluntarily liquidate during 2019.
- C. Further to that stated in Notes 9(A)(2) and 25(A) to the Annual Financial Statements, in January 2019 an amendment to the set of agreements between Hadera and Hadera Paper Mills was signed providing that the period of the long-term supply agreement, whereby Hadera will supply electricity and steam exclusively to Hadera Paper Mills, will be 25 years from the date of commercial operation of the Hadera Power Plant, and the indemnity limitation, in the amount of \$2 million, which Hadera is to pay Hadera Paper Mills was removed, such that the indemnification is now unlimited as to amount.
- D. Further to that stated in Note 25(B) to the Annual Financial Statements, in December 2018, the Electricity Authority published a decision regarding update of the tariffs for 2019, whereby the rate of the generation component was raised by 3.3% from NIS 281.6 per MWh to NIS 290.9 per MWh.
- E. Further to that stated in Note 25(G) to the Annual Financial Statements, as part of the arbitration proceedings in Rotem, in February 2019 a hearing was held before the tribunal. The arbitration decision has not yet been rendered and is expected to be issued on May 31, 2019. In Rotem's estimation, based on its legal advisors, that it is more likely than not that its position will be accepted. Accordingly, no provision was included in the financial statements in respect of said dispute.



**OPC Energy Ltd.**  
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**Note 5 – Additional Information (Cont.)**

- F. Further to that stated in Note 25(J) to the Annual Financial Statements, in January 2019, an amendment to the option agreement with Hadera Paper Mills was signed whereby it was agreed to extend the option period to 2019, and where the amendment provides that notwithstanding that stated in the original option agreement, the Company is to pay Hadera Paper Mills NIS 2,200 thousand for 2019, and if the Company exercises the option and signs a lease agreement it will pay Hadera Paper on the financial closing date with a financing party with respect to construction of the Hadera Power Plant, an additional amount of NIS 800 thousand. The amendment to the option provides that no other change applies to the option periods in respect of the years 2020–2022 and the payment in respect thereof.
- G. In March 2019, OPC Solar Limited Partnership, which is a wholly-owned limited partnership of the Company (hereinafter – “OPC Solar”) signed a binding memorandum of understanding for sale of all its shares and holdings in Greenday Renewable Energy Ltd. (hereinafter – “Greenday”), which as at the date of the Report, handled the Company’s electricity generation activities using photovoltaic technology, to Solgreen Ltd. (hereinafter – “Solgreen”) Subsequent to the date of the report, in May 2019, the transaction was completed in accordance with the memorandum of understanding – this being, among other things, after receipt of approval of the Supervisor of Economic Competition. On the completion date of the transaction, OPC Solar received part of the consideration, in the amount of NIS 1,500 thousand, and it was determined that it will receive an additional part of the consideration, in the amount of NIS 1,250 thousand, no later than June 20, 2019. Subject to fulfillment of the conditions provided in the memorandum of understanding, OPC Solar may be entitled to additional consideration for success as defined in the memorandum of understanding. The gain on the transaction, based on the fair value of the consideration OPC Solar is expected to receive, amounts to NIS 4 million and will be reflected in the Company’s results for the three months ended June 30, 2019.
- H. Further to that stated in Note 14(C)(2) to the Annual Financial Statements, the amount of the guarantee to Israel Electric Company in respect of Hadera’s supply license was updated to NIS 2,224 thousand (linked to the CPI).
- I. Further to that stated in Note 23(D) to the Annual Financial Statements, in February 2019, the amount of the guarantees to Israel Electric Company, as required as part of Rotem’s electricity purchase agreement, as described in Note 27(C) to the Annual Financial Statements, were updated to NIS 90 million (linked to the CPI).
- J. In February 2019, the Rating Committee of Midroog Ltd. updated Rotem’s long-term rating to Aa2 with a stable rating outlook and updated the rating of Rotem’s senior debt to Aa2 with a stable rating outlook.
- K. In March 2019, Rotem declared distribution of a dividend in the amount of NIS 88,000 thousand. The share of the Company and of the holders of the non-controlling interests in the dividend is NIS 70,400 thousand and NIS 17,600 thousand, respectively. The dividend was paid subsequent to the date of the report in April 2019.

**OPC Energy Ltd.**  
**Notes to the Unaudited Interim Consolidated Financial Statements**  
**At March 31, 2019**

**Note 5 – Additional Information (Cont.)**

- L. In March 2019, the Company declared distribution of a dividend, in the amount of NIS 36,000 thousand. The dividend was paid subsequent to the date of the report in April 2019.
- M. Further to that stated in Note 25D to the annual financial statements, in accordance with the notification provided by SerIDOM Servicios Integrados IDOM, S.A.U. (hereinafter – “IDOM”), the construction contractor of the power plant being constructed by Hadera (hereinafter – “the Hadera Power Plant”), the Company’s management estimates that the commercial operation date of the Hadera Power Plant is expected to be in the fourth quarter of 2019. In connection with Hadera’s entitlement to receive compensation from IDOM in accordance with the construction agreement covering the Hadera Power Plant in respect of a delay in the delivery date of Hadera Power Plant (hereinafter – “Compensation from IDOM”), as at the date of the report, Hadera recognized an amount receivable in respect of Compensation from IDOM, in the amount of about NIS 5 million. The Compensation from IDOM was classified as a reduction of the property, plant and equipment.

**Note 6 – Events Occurring Subsequent to the Date of the Report**

In May 2019, the Company’s Board of Directors approved that upon commencement of the service of Mr. Avisar Paz as the Acting Chairman of the Company’s Board of Directors, which is expected to take place in the second quarter of 2019, the Company will allot to Mr. Paz, for no consideration, the total amount of 352,424 non-marketable options, exercisable for one ordinary share of the Company, and in total 352,424 ordinary shares of the Company of NIS 0.01 par value each (hereinafter – “the Options”). The Options will be granted in accordance with the Company’s options’ plan (for details – see Note 17B to the annual financial statements) and under the Capital Track (with a trustee) pursuant to Section 102 of the Income Tax Ordinance, in four equal tranches. The vesting conditions and expiration dates are as follows:

<u>Tranche No.</u>	<u>Vesting Conditions</u>	<u>Expiration Date</u>
Tranche 1	At the end of 12 months from the grant date	At the end of 36 months from the vesting date
Tranche 2	At the end of 24 months from the grant date	At the end of 24 months from the vesting date
Tranche 3	At the end of 36 months from the grant date	At the end of 24 months from the vesting date
Tranche 4	At the end of 48 months from the grant date	At the end of 24 months from the vesting date

The exercise price of each option granted will be NIS 22.80 (unlinked). The exercise price is subject to certain adjustments (including in respect of distribution of dividends, issuance of rights, etc.).

The average fair value of the options on the approval date of the grant by the Board of Directors, using the Black and Scholes Model is NIS 5.67 per option. The calculation is based on a monthly standard deviation of 21.0%–21.6%, a risk-free annual interest rate for the period of 1.04% to 1.44%, an expected life of 4 to 6 years, and the price of a Company share on May 12, 2019 of NIS 24.24.

The cost of the benefit embedded in the options, which is based on the fair value on the date of their grant amounted to about NIS 2,000 thousand. This amount will be recorded in the statement of income over the vesting period of each tranche.